Food and Agriculture Organization of the United Nations

Enabling micro, small and medium-sized enterprises to participate in legal timber production and trade

Transformational changes generated by the FAO-EU FLEGT Programme

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Enabling micro, small and medium-sized enterprises to participate in legal timber production and trade

Transformational changes generated by the FAO-EU FLEGT Programme

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Abbreviations and acronyms

AGEXPORT	Asociación de Exportadores de Guatemala
AMOMA	Mozambican Association of Timber Operators
APAFO	Association of Small Forest Owners and Producers of Eastern Honduras
APKJ	Small-scale Wooden Furniture Association of Jepara
ARCAS	Asociación para el rescate y la conservación
ARUPA	Aliansi Relawan untuk Penyelamatan Alam
ASD	Action for Sustainable Development
ASMINDO	Indonesian Furniture Manufacturers Association
AVSI	Association des Volontaires pour le Service International
CARDER	Autonomous Regional Corporation of Risaralda
CED	Centre for Education and Development
CFOs	community forestry organizations
CH-CFV	Consejo Hondureño para la Certificación Forestal
CIFOR	Centre for International Forestry Research
CSO	civil society organization
TLAS	timber legality assurance system
CITEMADERA	El Centro de Innovación Tecnológica de la Madera
COFAMA	Commission of Furniture, Wood and Wood Products
CRD	Centre for Rural Development
DDS	due diligience system
DoTTNet	Domestic Timber Trade Network
EPA	Environmental Protection Agency
FECAPROBOIS	Fédération Camerounaise des Associations et des Professionnels de la Seconde Transformation du Bois
FEHCAFOR	Honduran Federation of Agroorestry Cooperatives
FDsF	Fundación Democracia sin Fronteras
FEDEMADERAS	Colombian National Federation of Wood Industries
FEDEMOMA	Mozambican Federation of Timber Operators
FLEGT	Forest Law Enforcement, Governance and Trade
FSC	Forest Stewardship Council
GFBC	Groupement de la Filière Bois au Cameroun
GFC	Guyana Forestry Commission
GhLAS	Ghana Legality Assurance System
GRA	Guyana Revenue Authority
GSMA	Guyana Services and Manufacturing Association
GTF	Global Timber Forum
HAWA	Handicrafts and Wood Industry Association of Ho Chi Minh City

HOPE	HAWA Online Portal for Exhibition
INAB	Instituto Nacional de Bosques
JIFFINA	Jogja International Furniture and Crafts Fair
KWC	Kumasi Wood Cluster
MINFOF	Ministry of Forestry and Wildlife
MOEF	Ministry of Environment and Forestry
MOIC	Ministry of Industry and Commerce
MOU	memorandum of understanding
MSME	micro, small and medium-sized enterprise
NACUL	National Charcoal Union
NGO	non-governmental organization
NIS	National Insurance Scheme
RECOFTC	Regional Community Forestry Training Center for Asia and the Pacific
RED FAISAN	Santander Musical Instrument Manufacturers Network Corporation
RRDPA	Rural Research and Development Promoting Knowledge Association
SDoC (also DPK)	supplier's declaration of conformity
SECOP II	Sistema Electrónico para la Contratación Pública
SIRMA	Sistema Informático de Rastreabilidad de la Madera
SME	small and medium enterprise
SVLK	System Verifikasi Legalitas Kayu
TIDD	Timber Industry Development Division
TUC	timber utilization contract
VAT	value added tax
VPA	Voluntary Partnership Agreement
VUF	village use forest

Executive summary

Micro, small and medium-sized enterprises (MSMEs) play a critical role in meeting the growing demand for forest products worldwide, with potential to contribute to responsible supply chains that combat illegal logging while promoting economic growth. However, a growing number of countries are adopting demand-side control measures that require proof of legality of forest products. Forest sector MSMEs will require significant support – and changes to the types of support they receive – to fulfil and even take advantage of these new and emerging market requirements and related opportunities.

This paper seeks to provide examples of how to support forest sector MSMEs cost-effectively and at scale to integrate them into domestic and international legal timber value chains. In particular, it focuses on the lens of legal compliance, which is defined as complying with relevant national laws for operating legally, including formally registering a business in accordance with national requirements.

Although practitioner experience demonstrates that the challenges facing MSMEs go well beyond legal compliance – including lack of access to credit and finance, inappropriate regulatory frameworks, poor capacity in advanced production processes, among other things[i] – achieving legal compliance is the first step towards being able to address many of these challenges. Legally compliant MSMEs are better positioned to access credit, subsidies, advisory and business support services, and represent themselves on official platforms. In a global marketplace with increasingly conscious consumers, legality is becoming a prerequisite for accessing markets. The experiences presented in this paper also suggest that pursuing legal compliance can shift an operator's mindset towards focusing on how they run their business, by putting previously unreachable goals, like accessing international markets, within their reach. This serves as a motivational factor for improving business operations and production practices, and recognizing the business's role in contributing to larger goals such as green economic development, poverty reduction and sustainable forest management.

Recognizing the need to ensure MSMEs can benefit from – and are not penalized by – the responsible forest trade, the FAO-EU Forest Law Enforcement Governance and Trade (FLEGT) Programme (hereafter called "the Programme") supported 110 initiatives in 20 countries between 2016 and 2022, which sought to enable MSMEs to supply legal timber to domestic and international markets. This paper analyses the lessons learned from this broad sample of initiatives to answer some core questions of interest:

- What motivates MSMEs to formalize and pursue legal compliance?
- What are the best practices for building the capacity of MSMEs?

[i] Macqueen, D., Bose, S., Bsukula, S., Kazoora, C., Ousman, S., Porro, N. & Weyerhaeuser, H. 2006. *Working together: Forest-linked SME associations and collective action*. London, IIED. https://pubs.iied.org/14521iied

- How does the strengthening of associations influence MSMEs' production and trade of timber products?
- How can we design interventions to reach MSMEs at a larger scale?

Each of these initiatives was found to adopt one or more of the following seven strategies, which are organized into three "pillars". These strategies generate "transformational changes", which represent pivotal shifts not only in the way of doing business but also in operator mindset to encompass principles of sustainability and responsible production.

PILLAR 1: FACILITATE COMPLIANCE THROUGH TAILOR-MADE SUPPORT TO MSMEs

1. Increasing MSME legal compliance through capacity building, mentoring and technical assistance

Targeted transformational change: MSMEs have increased their ability to comply with legal requirements on the production and trade of legal timber products. With the skills gained, these MSMEs have positioned themselves to access new markets and secure legal protections against potential wrongdoing or exploitation. Successful MSMEs have used this knowledge to transform their businesses by improving operational efficiency and management, serving as an example for others to follow.

2. Combining legality with better production to reinforce behaviour change with improved technical and business skills

Targeted transformational change: MSMEs can see the business case for operating legally and capitalize on the benefits of legality. MSMEs are more likely to pursue legal compliance once they see it as part of an overall package towards better business management. This happens when capacity-building programmes towards legal compliance also include content on enterprise management and improved production skills, such as accounting and financial management, market analysis and product design. These skills equip them to capitalize on the benefits of legality via their newly built skills, enabling them to access markets and manage their businesses more efficiently.

3. Integrating MSMEs into responsible value chains by linking them with buyers or manufacturers

Targeted transformational change: MSMEs are better integrated into domestic and international legal supply chains of timber products. A new generation of solutions is emerging to achieve this integration, including the launch of e-commerce platforms and IT-based logistics, traceability and due diligence systems that would enable MSMEs to supply to large lead companies. Rather than negotiating supply agreements between MSMEs and companies, which is an effective but less scalable solution, more initiatives are developing tools and mechanisms that enable access to legal raw materials, connect MSMEs with buyers and facilitate easier supply

chain control.

PILLAR 2: ESTABLISH STRONG SUPPORT STRUCTURES FOR MSMEs

4. Strengthening private sector associations that represent MSMEs and provide technical and financial assistance

Targeted transformational change: Strengthening private sector associations creates a virtuous cycle by enabling associations to provide more services to MSME members, which reinforces the association's credibility. Where individual operators previously had little influence on policy and little capacity to negotiate with industrial companies, their organization into associations enables the collective action needed for MSMEs to operate on a level playing field with large-scale industrial companies. Not only does this strengthening enable associations to secure additional support and resources – which can be recycled into member services – but it allows the provision of additional services to MSME members, as well as the creation of new tools and platforms to aid member legal compliance and competitiveness, and the launching of new initiatives and campaigns. When associations can provide these additional services and tools, they are better positioned to attract more members, support and resources, which contributes to their own financial sustainability.

5. Building an "ecosystem of support": expanding the roles of civil society organizations and government to aid MSMEs

Targeted transformational change: The sum of all MSME-support efforts is magnified when multiple actors are involved. MSMEs depend on an "ecosystem of support", which is defined as when different stakeholder groups work together to contribute their unique resources and capacities to help MSMEs achieve legal compliance and better production. Successful initiatives not only harnessed the differentiated strengths of government and civil society, but they built the capacity of these stakeholders to provide their own MSME support.

PILLAR 3: CREATE AN ENABLING LEGAL ENVIRONMENT

6. Reducing the regulatory burden by simplifying existing legal frameworks

Targeted transformational change: Micro, small and medium-sized enterprises, government, civil society organizations, private sector associations and other actors have achieved increased technical capacity and positioning within multistakeholder platforms to advocate for a more enabling legal environment. While many of the initiatives analysed were unable to achieve the intended legal reform during the time frame of their intervention, several were able to secure changes in the long term. This indicates that creating an enabling legal environment may be pursued by ensuring MSMEs are well placed to advocate for their own needs and take advantage of "windows of opportunity" when they arise. Other actors – such as government

actors themselves – are better placed to pursue regulatory reform when they have increased technical capacity and direct communication with on-the-ground stakeholders.

7. Creating demand for legal MSME products through awareness campaigns and responsible purchasing policies

Targeted transformational change: Domestic demand for legal timber products is increasing within tropical timber-producing countries. Domestic demand for legal timber products is crucial for incentivizing MSMEs to formalize (i.e. attain legal operating status), attend capacity-building sessions and adopt legal practices in their businesses. To boost this demand, an increasing number of countries are conducting public awareness-raising campaigns to boost responsible consumption, developing public procurement policies or encouraging domestic actors to adopt responsible purchasing policies.

In analysing the impacts of Programme-funded initiatives to identify effective actions for supporting MSMEs at scale, a number of additional strategies were found which are recommended for future support work:

- **Create tailored tools that help MSMEs achieve legal compliance and access markets:** Accelerate digital transformation in the forest sector through developing IT-based tools and e-platforms that benefit MSMEs.
- **Pursue legal reform based on risk-based or differentiated criteria for MSMEs:** Alternative requirements for MSMEs can be defined based on risk levels or enterprise size, which would be simpler and cheaper. Propose different timelines or paperwork requirements for compliance.
- **Enable associations to offer support to other associations:** The capacity-building model of coaching for MSMEs is equally applicable to associations; well-established associations and federations could provide services for other associations, such as organizing networking events, fairs and exhibitions.

The initiatives discussed in this paper offer a wealth of experience and knowledge, which can be capitalized upon to boost forest-dependent livelihoods and promote both social equity and sustainability within timber supply chains. While no single strategy can prepare a nation's worth of MSMEs to participate in the legal timber market, implementing a portfolio of these strategies in a comprehensive support package can help realize the potential of MSMEs to move past traditional business-as-usual modes of operation towards sustainable growth and more inclusive, resilient economies**.** The transformational changes discussed in this paper have the potential to grow over time as the capacity, networks and systems put in place continue to support MSMEs in the long term.

Endnotes

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Introduction

Micro, small and medium-sized enterprises (MSMEs), i.e. small-scale producers and processors, in the forest sector play a critical role in meeting the growing demand for forest products worldwide, as well as making vital contributions to livelihoods and national economies. It is estimated that 80–90 percent of forest enterprises are small or medium sized, with MSMEs providing over 50 percent of total forest-related employment[1,2] – often forming the backbone of the global supply chains of large companies. The greatest share of the domestic market demand for forest products in tropical timber-producing countries is met by MSMEs, often dwarfing a given country's timber export volume.

Micro, small and medium-sized enterprises are also drivers of economic growth. In emerging economies, seven out of ten new positions in the formal sector were created by MSMEs, and their contribution to employment is even higher when informal MSMEs are considered.[3] The forest sector contributes more than USD 1.52 trillion to world gross domestic product and employs 33 million people.[4]

Their small-scale and local nature means that the establishment and growth of MSMEs are more likely to create local jobs and generate revenues that remain within their geographic area. This can significantly benefit marginalized groups, such as women and young people – directly through employment in household-owned businesses and indirectly by contributing to local economies. Supporting MSMEs can, therefore, create decent jobs, provide public goods and services, and generate livelihoods that contribute to poverty alleviation[5] and more resilient local economies.

Opportunities and challenges for legality

In moving towards legality or sustainability, MSMEs represent a powerful force in moving the world towards a global green economy. When MSMEs are supported to produce timber and timber products responsibly, they can help combat illegal logging by reducing reliance on imports from potentially high-risk countries while creating a culture of responsible production. For MSMEs located within or around forests, ensuring the sustainability of these natural resources is directly linked to the sustainability of their businesses and livelihoods. Their flexible and adaptable structure positions them well to help the world transition to a greener and more equitable model of growth.[6] Reinforcing efforts for more sustainable production and trade of forest products, including by communities and producer organizations, is vital to building on the progress towards the 2030 Agenda for Sustainable Development, with its Sustainable Development Goals, and achieving the Paris Agreement targets, including carbon-neutrality commitments.

However, global forest sector markets are changing, as an increasing number of consumer countries recognize the role of responsible consumption in addressing global issues such as deforestation and illegal logging. To ensure the legality and sustainability of internationally traded timber, these countries are requiring controlled procedures, such as documented due diligence and evidence of legal origin. Putting these procedures in place requires changes in how timber producers and processors do business, which incurs additional up-front costs. These new requirements therefore represent a barrier to MSMEs who are unable to meet them, and an opportunity to those MSMEs who can.

Safeguards and support are needed to enable MSMEs, especially those in the informal sector, to meet these new requirements and benefit from increased market opportunities, and to ensure that these requirements do not represent a barrier by inadvertently discriminating against individual tree farmers, family enterprises, and other producers and processors. A ten-year evaluation of the Forest Law Enforcement Governance and Trade (FLEGT) Action Plan commissioned by the European Union recommended the provision of support to MSMEs to avoid the potential risk of being negatively affected by the implementation of regulatory timber legality assurance systems (TLASs) established under bilateral trade Voluntary Partnership Agreements (VPAs), signed between the European Union and tropical timber-producing countries.[7] While evidence has been found of negative impacts of VPAs on MSMEs in some countries,[8, 9] it has not in others.[10, 11, 12] There are also potential barriers and opportunities posed to export-oriented MSMEs by other demand-side regulations that require due diligence, such as the European Union's Timber Regulation, the United States Lacey Act amendments, the Australia Illegal Logging Prohibition Act and other emerging directives from Japan, New Zealand, the Republic of Korea and China seeking to prevent illegal timber from entering their markets.[13]

Addressing informality

This is especially the case given that the vast majority of forest sector MSMEs operate within the informal economy; of the 33.3 million people worldwide working in the forest sector, nearly a quarter (23 percent) are informal, a figure that can reach as high as 90 percent in some countries.[14, 15] In Indonesia alone, 1.5 million people are employed in the informal timber sector, contributing EUR 63 million to the local economy.[16] According to the Instituto Nacional de Estadística e Informática (INEI), in Peru labour informality in 2017 was 96 percent in rural areas and 76 percent in urban areas.[17] The informal sector is notoriously difficult to regulate, as these enterprises intentionally or unintentionally operate below the radar of their country's governments. Consequently, few countries have reliable data on the extent of informal businesses.

In some countries, informality is the only reasonable option for forest sector MSMEs, especially in contexts where they face significant bureaucratic barriers and high transaction costs for being formal. Informality is also appealing when governments are unable to provide benefits for being formal, such as access to

subsidies, discounts on new equipment or machinery, training programmes, credit or low-interest loans, and emergency relief packages. However, the consequence is that informal MSMEs have no legal recourse in situations where they are exploited; informality can leave MSMEs vulnerable to legal penalties and at higher risk of being asked to make "informal payments" associated with corruption.

Much work remains to be done to address the issue of informality. In 2019, the Center for International Forestry Research (CIFOR) and the Food and Agriculture Organization of the United Nations (FAO) conducted an evidence-gathering study on the impacts of VPAs in Cameroon, Ghana and Indonesia. The study found that despite widespread efforts towards improving legality in the forest sector, in all three countries, only a marginal portion of informal MSMEs have joined the formal timber sector and improved their capacity to comply with legality requirements. This is partially because the cost of meeting legality requirements remains a significant challenge for MSMEs. For instance, in Peru, the cost of legal forest harvesting represents 27 percent of the total costs of timber extraction from the management plan to the processing company's yard.[18] In contrast, in Honduras, this cost of accessing forest legality is 12 percent,[19] in Colombia 21 percent[20] and in Guatemala 19.2 percent[21] of the cost of timber extraction. These costs remain very high and will continue to compromise the competitiveness of illegal and informal operators unless specific measures or initiatives are enacted to reduce the cost of legal compliance.

The growing prevalence of demand-side timber trade regulations has created an unparalleled window of opportunity for governments to improve the enabling environment for MSMEs. For example, the development of TLASs creates incentives for legal reform, which in some countries has led to the strengthening, clarification and simplification of legal requirements for MSMEs. At the same time, the demand for legal timber within domestic markets is also growing with the increased adoption of public procurement policies and as a result of private sector-led responsible purchasing policies. By removing legal bottlenecks and "red tape", and by creating conducive policies, and legal regimes and training programmes, MSMEs are empowered to fulfil their potential as "engines of growth".

The FAO-EU FLEGT Programme

The problems facing MSMEs are well documented, as are the responses and solutions that need to be adopted to overcome these problems. What is lacking is a concrete demonstration of ways to adopt feasible, effective and scalable solutions that lead to transformational change. Piloting such solutions has been a core part of the work of the FAO-EU FLEGT Programme, which provided technical and financial assistance to initiatives designed by governments, civil society and private sector organizations in Latin America, Africa and Asia to improve forest governance, combat illegal logging and promote sustainable forest management.

Based on the Programme's experience, the idea of "transformational change" indicates a shift not only in the way of doing business (i.e. sourcing legal wood instead of undocumented or even illegal wood), but also in mindset. Such a shift

in mindset has been reported by MSME beneficiaries of Programme support, who said that they had a greater understanding of the significance of their business practices for addressing global challenges, including contributing to the sustainability of forest resources and providing productive employment and decent work.

This paper represents a capstone of the Programme's decennial experience in promoting legality in the international timber trade and supporting MSMEs to supply legal timber markets. It outlines examples of transformational changes achieved, illustrating the approaches and best practices behind these changes. It is hoped that these approaches could be capitalized upon and further scaled up in future development interventions targeting MSMEs.

Recognizing that there is a broad array of practitioner experience in working with MSMEs in many sectors, this paper discusses support through the lens of enabling MSMEs to participate in legal timber production. The entry point of legality has proven to be useful in shining a light on all aspects of business operations, requiring these enterprises to thoroughly take stock of and comprehensively change their business operations. Consequently, MSMEs have experienced benefits beyond the initial objective of increased legality compliance, illustrating how legal compliance can catalyse transformational change.

Transformational changes brought by support from the FAO-EU FLEGT Programme

Between 2016 and 2021, the FAO-EU FLEGT Programme provided support to 110 initiatives that assisted MSMEs in 20 countries,[i] worth USD 10.4 million. This support reached a variety of businesses (Table 1) which, for the purposes of this report, are classified as MSMEs.

TABLE 1
Types of MSMEs supported

Producers	Processors
Individual tree growers	Artisans and chainsaw millers
Small-scale timber producers, and small and medium-sized forest enterprises	Sawmills and primary processers
Community forests	Secondary processers (furniture, handicrafts, manufacturing)
Indigenous Peoples	Processer associations
Producer associations and cooperatives	Other (traders, charcoal producers, etc.)

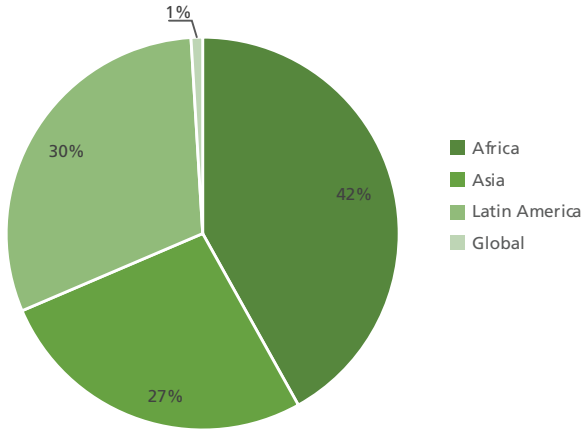
The majority of the examples cited in this paper represent wood processors rather than timber producers. This is because the bulk of MSME-support initiatives targeted wood processors, which may be explained by the fact that processing represents multiple steps in the value chain, whereas producing and harvesting wood represents only one – the first and most critical step towards establishing timber legality. For instance, in Peru, a review of government data identified that 14 percent of forest sector actors are timber producers, and 86 percent are wood processors.[22] At the same time, smallholder timber producers harvest timber infrequently (i.e. timber with rotations of five or more years). Timber production may be only one of a timber producer's many income sources. In contrast, processors require raw material continually, given the investments made in workspaces and machinery. However, it was also common for interventions to target multiple timber supply chain actors, given that vertically integrated enterprises fit into multiple categories.

In total, 42 percent of MSME-support projects were implemented in Africa, while 30 percent were based in Latin America and 27 percent in Asia. One global

[i] Countries represented included: **Africa** – Cameroon, Côte d'Ivoire, Central African Republic, Democratic Republic of the Congo, Gabon, Ghana, Liberia, Mozambique; **Asia** – Cambodia, Indonesia, Lao People's Democratic Republic, Myanmar, Philippines, Thailand, Viet Nam; **Latin America** – Colombia, Guatemala, Guyana, Honduras, Peru.

project implemented by the Global Timber Forum (GTF) was also included in the analysis. Cameroon, Ghana and Honduras were the countries with the greatest number of MSME-support projects.

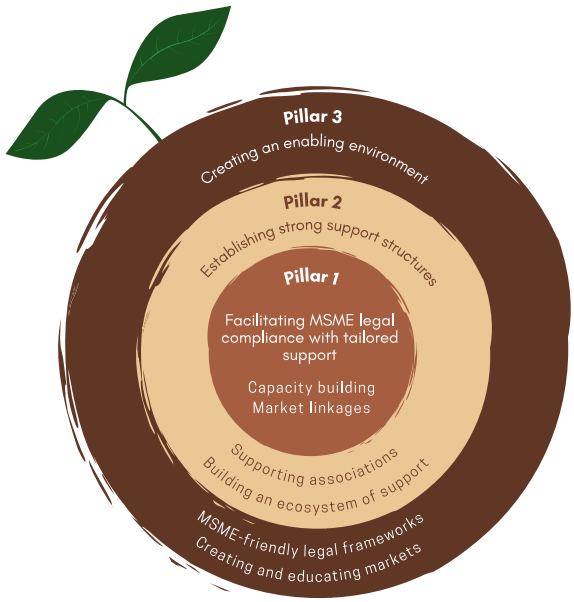
FIGURE 1
MSME projects by region



PILLARS OF TRANSFORMATIONAL CHANGE

The sections below outline strategies that led to transformational changes for MSMEs, with the ultimate objective of increasing MSMEs' participation in legal and sustainable timber product value chains. The strategies are organized into a framework consisting of three concentric pillars, which mirror the cross-section of a tree: the heartwood, the sapwood and the bark. These three pillars illustrate the idea that MSME-support strategies cannot be conducted in isolation as they mutually reinforce each other for the overall health of the tree.

FIGURE 2
Model of MSME-support strategies



1. **Heartwood – Facilitating compliance through tailor-made support:** This pillar focuses on direct, targeted support to MSMEs at the enterprise level – like a tree's heartwood, MSMEs represent the valuable core and need to be made more durable, strong and resistant to threats. This targeted support is provided through capacity-building and mentoring support, coupled with concretely integrating them into responsible timber product value chains.
2. **Sapwood – Establishing strong support structures:** By strengthening the institutions that support MSMEs, like a tree's sapwood – the structures are in place to channel the resources that MSMEs need to thrive. These institutions include government and civil society organizations (CSOs), but primarily consist of private sector associations that can provide MSME support well beyond the lifetime of a project.
3. **Bark – Creating an enabling operating environment:** Micro, small and medium-sized enterprises are protected from potential damage by creating friendly legal frameworks and markets that demand legal and sustainable timber. Like a tree's bark, this enabling environment mediates an MSME's interactions with the outside world, protecting against macrolevel shocks while also educating the general public and markets about the importance of purchasing legal timber products.

While many of these strategies have been well documented by practitioners, the following sections aim to illustrate how to implement them and identify the key success factors for these solutions to work.

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Pillar 1: Facilitate compliance through tailor-made support

1.1. FEWER TRAININGS AND MORE COACHING: REINVENTING MODELS FOR TECHNICAL SUPPORT FOR MSMES TO COMPLY WITH NATIONAL LEGISLATION

> *The members of the agroforestry cooperatives of the Lean Valley, Arizona, are extremely satisfied with all the actions carried out so that we could legalize our organizations. Because without the documents to commercialize the wood (invoices), the management plans do not serve any purpose, because the wood cannot be legally sold and the product without these documents is liable to be confiscated and lost.*
>
> – COANODMEL Cooperative, Arizona, Atlántida, Honduras

Capacity building is a fundamental component of any MSME-support project; indeed, a 2019 CIFOR study recommended further awareness raising and capacity building for the informal sector to improve understanding of the added value of legal compliance and equip MSMEs with the tools to do so.[23] Among the initiatives considered in this analysis, 71 percent included dedicated capacity-building components, which trained individuals representing MSMEs in areas that typically included the benefits of legal compliance, formalization, use of technologies or tools to promote legal compliance, business management, improved production techniques, sustainable forestry practices, and gender awareness and mainstreaming.

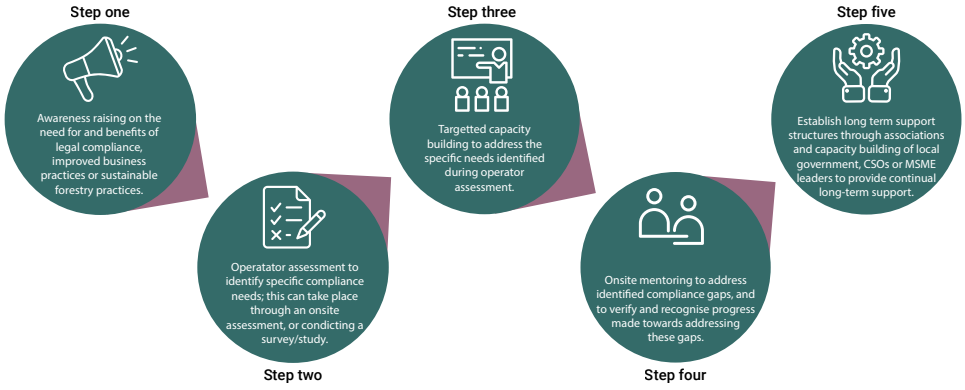
The reality is that the MSME ecosystem is fluid: new operators come and go as they adapt their livelihoods, and as such, ***the need for capacity building is continuous***. At the same time, adopting new behaviours can be extraordinarily difficult or risky for MSMEs with few resources, operating on thin profit margins. Partners report that some MSMEs formalize in months and some in years, raising the need to create a more enabling legal environment through reducing barriers to formalization (discussed further in Section 3.1). Even MSMEs who have already received support may need continued guidance, as it can take years to gain sustained market access or to institutionalize these new operations practices.

1.1.1. What is meant by "coaching"?

Each market demands certain standards for quantity, quality, legality and the logistical delivery of products. Micro, small and medium-sized enterprises require holistic support to address all aspects of their production so that they can comply with the standards needed to access and function in these markets. This is another reason why legal compliance is a useful entry point for supporting MSMEs – it applies to virtually all aspects of production, requiring businesses to conduct a thorough review of their production systems and administration. However, it takes time for businesses to conduct these reviews and make the comprehensive changes needed to demonstrate legal compliance and meet market standards – much more time than what can be offered in a one-off training.

To address the need for holistic and continued guidance, an overwhelming number of Programme partners emphasized the need to complement one-off intensive training events with long-term coaching and mentoring that would enable MSMEs to demonstrate and master the use of their new skills and understanding. In this sense, coaching refers to continued follow-up support – usually after training has taken place – in which a coach, trainer or facilitator will closely work with them to undertake the steps necessary for legal compliance.

FIGURE 3
The "Gold Standard" five-step capacity-building process


Step one
Awareness raising on the need for and benefits of legal compliance, improved business practices or sustainable forestry practices.
Step two
Operatator assessment to identify specific compliance needs; this can take place through an onsite assessment, or condicting a survey/study.
Step three
Targetted capacity building to address the specific needs identified during operator assessment.
Step four
Onsite mentoring to address identified compliance gaps, and to verify and recognise progress made towards addressing these gaps.
Step five
Establish long term support structures through associations and capacity building of local government, CSOs or MSME leaders to provide continual long-term support.

1.1.2. Examples of strategies for improving the technical capacities of MSMEs for legal compliance

With these lessons in mind, this section describes a capacity-building model and its stepwise approach used to great effect by partners in Africa and Latin America.

Step 1: Awareness raising

Technical training must be preceded by general awareness raising of the benefits of legal compliance. This is because MSMEs often operate in a reality where there is a low demand for legal timber in their countries (even FLEGT-licensing countries like Indonesia). The lack of demand creates an environment where participants may not be motivated to take up the practices taught in training or even to attend

training due to a perceived lack of benefits. For this reason, additional efforts are needed to explain the benefits of legality and correct potential misperceptions.

BOX 1A

Seven arguments to convince MSMEs of the value of legality

Discouraged by the apparent costs of buying or producing legal timber in the absence of a market premium, MSMEs may be tempted to consider legality as too costly. To combat this perception, civil society, government and private sector partners across all three global regions have used the following arguments to advocate for the benefits of legality.

1. **Legality frees you from corruption – "Everyone has the right to sue the person who tries to corrupt you.**" Legally operating MSMEs have a better chance of protecting themselves from harassment by officials, and of standing against those involved in racketeering.
2. **Legal MSMEs can obtain preferential credit and tax rates – "When people are registered, they can access credit schemes."** Legal status is a prerequisite for accessing credit, pension rights, subsidies, insurances and other advisory and business support services, which MSMEs may not be able to pay for otherwise. Some countries even offer reduced interest rates for legally registered businesses.
3. **Legality prepares for the future – "You will have to be legally compliant sooner or later."** Legalizing now is a good strategy to anticipate the decisions that will be taken eventually to meet the future demand generated by the procurement requirements of public markets.
4. **Legal compliance can help grow your business – "Legality is the future of a business."** Legality allows MSMEs to "build their trade" as legality is a critical factor for enterprise growth and development. In some countries, achieving full legal compliance allows MSMEs to export directly, potentially cutting out middlemen and boosting the revenue needed to fuel their growth.
5. **Legality bolsters credibility – "Certified legal wood can increase the credibility of small and medium enterprises (SMEs), and the trust from buyers, especially from buyers in advanced markets, such as Europe and America."** Operators find that strengthening credibility is better for their businesses. Not only is it good for brand image, but credibility gives MSMEs a stronger platform from which to request government support.
6. **Choosing illegality costs more in the long run – "It might be cheaper to use illegal wood in the short term, but it is more expensive for everybody in the long term."** Legal timber can avoid loss of revenue through preventing orders from being cancelled and avoiding potential fines or court cases. At the same time, while many consumers choose illegal timber for its cheaper price, this timber is often of poorer quality and not produced with the dimensions and standards needed by consumers.

7. **Legality supports environmental sustainability – "This forest is your source of income."** – For MSMEs, loss of the forest means loss of their livelihoods. The survival of their businesses is a key factor that leads MSMEs to choose legality over illegality. For this reason, environmental sustainability is synonymous with operational sustainability. Legal compliance places MSMEs in a stronger place to ensure operational sustainability, allowing for longer-term operations and growth.

The only way to remain within the forest sector permanently is that their activities are profitable, sustainable and legal. As this is a regulated sector, legality is not an end but a requirement for those who wish to remain in the sector.
– Gremial Forestal, Guatemala

The example in Box 1B below illustrates how different types of communication products can be revised to raise awareness among MSMEs. It also illustrates how awareness-raising efforts can improve operator understanding while also shifting perceptions among clients and the general public.

BOX 1B

Guatemala – "Un producto legal vale más" (A legal product is worth more)

The Guatemalan Exporters Association's (AGEXPORT) Commission of Furniture, Wood and Wood Products (COFAMA), which includes MSMEs among its membership, recognized that many members lacked awareness of the process for demonstrating legal compliance when exporting. Members would approach AGEXPORT staff asking what paperwork needed to be completed to accompany a container shipment. With this lack of awareness, mistakes were often made that caused economic losses to member companies. AGEXPORT realized they needed to help fill this information gap because although their members were not illegal, they did not know the process for exporting legally.

In response, COFAMA created a platform which hosts videos and information materials that outline the steps companies must follow to register their businesses, to demonstrate legal compliance and to become exporters. The materials are designed to be sent via WhatsApp so that viewers can digest the information they need in around five minutes. For members without internet access, AGEXPORT produced the Manufactura Forestal GT magazine to create awareness about the importance of legality in the forest sector while also providing updates about international markets.

Although the materials were developed to educate members, they also improved AGEXPORT's ability to interact with foreign clients. When a client in New York wanted to purchase pulp for producing a magazine, AGEXPORT provided these materials. The association notes that having the tools on hand makes it easier for their limited staff to handle client requests and questions on legality procedures in Guatemala.

Step 2: Operator assessment

This step consists of assessing operator compliance gaps through site visits or field surveys, and then working with the MSME to develop an action plan to address these gaps. This method works because companies have ownership over these plans, and the feedback they receive is specific.

This model has been most effectively used by the Kumasi Wood Cluster (KWC) in Ghana (See Box 2), as KWC has several auditors, trained by Forest Stewardship Council (FSC) staff, who are capable of rigorously and systematically assessing compliance gaps. Although many partners have been able to assess compliance gaps without the help of trained auditors, having this type of expertise among staff has been an asset. Organizations without trained auditors can also assess operators using predefined checklists, usually based on a country's timber legality definition.

BOX 2

Ghana – Success story with the Kumasi Wood Cluster

FAO has supported the KWC since 2015 to help MSMEs improve their business processes and procedures. Over time, KWC has become a specialized training provider for MSMEs, supporting them to become compliant with the Ghana timber legality assurance system (GhLAS). Using the five steps outlined in this section, they have trained nearly 220 MSMEs, 70 percent of which have achieved at least satisfactory GhLAS compliance levels.

One beneficiary noted:

> *I am grateful to KWC for taking me through the timber legality requirements and coaching me to close the corrective action requestsi raised by the Independent Monitor against my company. I never knew there was such an organization supporting industry by actually doing one-on-one coaching. I will ensure the company avails itself of further training anytime it is possible.*

KWC emphasizes that the key elements that make their trainings work are credibility and trust. Any training intervention needs to involve different governmental entities, which gives the training greater legitimacy and enhances the trainers' credibility. KWC has also built a strong network within the private sector in Ghana, which enables the cluster to foster trusting relationships with trainees. KWC finds that, without trust, trainees will not feel comfortable reaching out for support after the trainings, which means that their long-term GhLAS compliance will be affected.

KWC aspires to use its expertise and body of work to create a training centre. Although this goal has not yet translated into a revenue-generating model, KWC is confident that once FLEGT licensing is in place in Ghana, there will be greater demand for GhLAS compliance training, and KWC will be well positioned to provide this service to help MSMEs achieve full legal compliance in their operations.

[i] Corrective action requests refer to actions identified by an auditor that an enterprise must take to bring itself into compliance with a given standard.

Step 3: Tailored capacity building to address issues raised in assessments

There are a number of important best practices to follow when conducting capacity-building activities:

- **Evaluate training materials before and after delivery:** In Viet Nam, the Viet Nam Forest Owner Association held a specific workshop to evaluate and assess the training materials that had been developed. Their post-training workshop allowed them to assess the efficacy of these materials based on the training outcomes. By involving stakeholders in this evaluation, these training materials became a key reference when the Government of Viet Nam developed its VPA communications strategy.
- **Combine theory and practical exercises:** Theory should be followed up with practical exercises to ensure that participants can put the concepts into action. In the Lao People's Democratic Republic, training participants immediately practised how to record input-output volumes of raw material, including the calculation of recovery rates, throughout the whole process of producing a product in preparation for the introduction of a new chain-of-custody regulation. The government had initially encountered challenges in uptake due to the voluntary nature of this regulation. However, this training proved effective during follow-up visits to the field, revealing that operators maintained a strong understanding of input-output monitoring and related concepts, putting them in a strong position when the chain-of-custody regulation came into effect in 2020.
- **Conduct activities locally rather than requiring MSMEs to travel to cities:** One project in Guyana suffered from low participation in its trainings, which resulted in the cancellation of additional anticipated trainings – a scenario also experienced by partners in Africa and Asia. However, a follow-up project learned from this experience and organized trainings that were more local, given that "most forest sector operators are in the field, and you have to meet them where they are."
- **"Have a sense of the private sector":** It is important to select trainers with experience working with the private sector and to be able to communicate in a way that speaks to the needs and values of the private sector – that values the time they have put aside to undergo training and does not unnecessarily "villainize" the role of the private sector in causing deforestation and environmental degradation.
- **Use modified training schedules where appropriate:** Micro, small and medium-sized enterprises are businesses that often cannot forgo profit by having their staff attend all-day training sessions over several days. Private sector representatives often cope by sending low-ranking or non-essential staff members, which often does not ensure the right people are trained. Partners recommend breaking trainings down into smaller blocks of time and offering them during evenings or weekends so that participants can attend while still running their businesses.
- **Complete aspects of legal compliance during training:** This not only spares MSMEs the potential time and costs of travelling to apply for permits, but

it allows project organizers to measure the results of training in terms of the number of applications submitted. In Guatemala, the Instituto Nacional de Bosques (INAB) conducted awareness-raising workshops about the need to register with the National Forest Registry and installed on-the-spot registration booths so attendees could register during training. A total of 303 new companies were added to the National Forest Registry during the project.

BOX 3

Guyana – On-the-spot registrations

A total of 69 community forestry organizations (CFOs) are registered in Guyana, and together they have 124 community forest management agreements covering 493 625 ha of state forests. These groups provide employment for approximately 5 000 people.

The Guyana Forestry Commission (GFC) and the Environmental Protection Agency (EPA) have taken a lead role in supporting CFOs to become legally compliant. Previously, the government struggled to get CFOs to complete their registration with the National Insurance Scheme (NIS) and the Guyana Revenue Authority (GRA) so that they could fulfil their social and fiscal obligations, and obtain environmental authorizations to comply with environmental protection obligations. A GFC representative involved in the trainings noted that,

> *When we engaged the CFOs, we did not make provisions for them to register onsite. So, we found ourselves having to call the communities after the project and insist that they follow through with the registration.*

In a follow-up phase, GFC took a different approach. They brought registration forms to the site, and informed communities in advance which documents would be needed to register. Both GFC and the EPA helped trainees complete paperwork at the training session in order to register with the GRA and NIS, and obtain their environmental authorizations. They also allowed community leaders to register individuals on their behalf – in a single trip, one leader could register 40 people, saving them time and transport costs. These measures to facilitate registration are critical but simple steps that can be taken to support the legal compliance of operators who are hard to reach, do not have the resources to travel to the Guyanese capital Georgetown, and struggle to read and understand complex documents.

As of April 2021, the number of CFOs who had begun the environmental authorization compliance process increased from 7 percent at the beginning of the project to 46 percent. The number of GRA-compliant CFOs rose from 0 percent to 29 percent, while the number of NIS-compliant CFOs increased from 0 percent to 32 percent.

Step 4: Provide on-site mentoring support to address remaining compliance gaps
Training evaluations universally ask for the same thing – *more time to absorb the concepts taught in the training.* For this reason, partners understand that training must be followed by months – or sometimes years – of technical support to help operators. The projects that were most successful in helping MSMEs formalize or become legal were only able to do this by providing individualized, long-term follow-up, much of which was conducted onsite at the workshops of MSME beneficiaries (see Box 4). One partner in Viet Nam observed that onsite technical support also enabled outreach to other local households and MSMEs who had not previously received any technical assistance.

BOX 4
Indonesia – Long-term coaching by field facilitators

Local CSO Aliansi Relawan untuk Penyelamatan Alam (ARUPA) supported a group of 13 small and medium-sized wood processing enterprises in Java, Indonesia in achieving System Verifikasi Legalitas Kayu (SVLK) certification. This was accomplished by hiring recently graduated forestry professionals to work as field facilitators. The field facilitators monitored the targeted SMEs and provided information on the documents needed at each step of the registration process. They also helped the SMEs physically complete the process and taught them how to perform certain tasks that the SMEs found difficult. For example, almost all the partner SMEs complained about having to record timber purchases and sales, but after the field staff persisted in showing how to fill in the documents, they got used to it. The process showed that day-to-day, consistent support was more effective than hiring an expert whose costs would have prohibited them from providing the time-intensive support that MSMEs actually need. Individualized support is also valuable given that out of the 13 SMEs who received support, no two were alike. The field facilitators noted, "They are very different industries with different administrative contexts, different productions and different needs." The process took ten months, but the approach was ultimately successful; all 13 SMEs received their SVLK certification in July 2020.

Partners have found that this step is most effective when it concludes with a real or mock audit and formal recognition of achieving compliance. In countries with operational TLASs, this recognition can take the form of awarding certification against the system's requirements. In some countries, governments, private sector associations or CSOs have enacted their own schemes recognizing compliance with national legality requirements. In Colombia, the Autonomous Regional Corporation of Risaralda recognized 44 companies as being legally compliant, noting extra benefits with clients that only purchase traceable timber and pay attention to environmental considerations.

Step 5: Establish structures that can continue to provide long-term support

Achieving and maintaining this level of compliance requires consistent follow-up and individualized attention over the long term, raising the need to leave in place long-term support structures. One such support structure is organizing the trained MSMEs to form an association or cooperative. In Cameroon, Action for Sustainable Development (ASD) found that establishing groupings of formalized processors provides this type of long-term support structure by creating an organization that MSMEs can join when they are ready to formalize – an event which may take years depending on each MSME's willingness and readiness. Part of the KWC model described in Box 2 above also includes a focus on long-term coaching beyond the lifetime of a given support project.

The other favoured structure is to develop a cadre of master trainers based within the MSMEs' geographic location. These trainers can be members of private sector associations; in Viet Nam, the Handicrafts and Wood Industry Association of Ho Chi Minh City (HAWA) designed a 25-day training curriculum for its staff to provide on-the-job training to MSMEs in the long term. They can also be CSOs. The Center for Rural Development (CRD) in Viet Nam focused on empowering local CSOs to provide long-term capacity-building support to household businesses in wood villages to guide them towards legal compliance.[ii] They can even be other operators, as described in Box 5 below.

BOX 5

Côte d'Ivoire – Creating a lasting master trainer network Indonesia

The international non-governmental organization (NGO), Association des Volontaires pour le Service International (AVSI) Côte d'Ivoire, trained over 1 400 wood sector artisans and chainsaw millers in a single project – more than any other single project supported by the FAO-EU FLEGT Programme between 2016 and 2021. The association accomplished this by establishing a group of trainers who met the following criteria: (1) having completed secondary education, (2) ownership of a wood sector business, and (3) strong motivation. Through a partnership with the regional Chamber of Trades and Crafts, the selected trainers underwent a rigorous training programme that included practical exercises and role-playing to enable them to train and teach. Their performance in pre- and post-training tests improved from 20 percent to 80 percent.

The trainers were then responsible for training an additional 20 MSMEs within their geographic area. Notably, the trainings took place in the trainer's company workshop, which helped build trust between trainer and trainee. After the training, the trainers became coaches and provided additional support to SMEs in completing all the administrative processes required to formalize their businesses, which in some

[ii] This work resulted in a "Manual on establishing networks of civil society organizations to support the implementation of the VNTLAS and Organizational Classification System" available to view here.

cases included going with them to appointments in government offices. As a result, 124 artisans were formalized when the project ended in 2019. Even though this process took place from 2018 to 2019, AVSI reports that the trainers remain active today in supporting the MSMEs in their area.

This approach was successful because it fostered partnerships with regional Chambers of Trades and Crafts throughout the country, which helped connect AVSI with artisans interested in training. The project was timed perfectly to coincide with an EU-funded revitalization of the Chamber of Trades and Crafts, which led to the registration of thousands of artisans prior to the AVSI project.

The project also empowered local MSMEs to train others in a business-to-business approach. AVSI found few competition issues among businesses because they also formed associations of artisans, enabling the artisans to join together to leverage additional benefits, such as joint purchasing of timber.

By training a large number of MSMEs, AVSI was able to capitalize on this critical mass of legal enterprises to implement more innovative solutions, such as creating MSME associations, which have since joined the timber sector federation of Côte d'Ivoire, and are working to establish a legal timber purchasing centre. AVSI also extensively studied how to address the challenges of formalization, which underpins their work. This illustrates how success builds on success to pursue more ambitious and innovative initiatives over time.

These support structures are critical for addressing the issue of scale. Most of the initiatives studied were only able to train an average of 78 MSMEs per project, while the amount of MSMEs that need to be trained number in the tens of thousands. The best way to build capacity at scale is through these support structures of local technical experts who remain in the locality. Recognizing this, in Viet Nam, CRD stated that if they wanted to reach more MSMEs at scale under future support efforts, they would focus on developing a master trainer network.

1.1.3. Lessons learned

While the above strategy represents an "idealized" version of building technical capacities for MSMEs to achieve legal compliance, this section offers generalized lessons learned from the 74 projects that included capacity-building components.

Involve MSMEs in the design of their capacity-building programmes. Several projects in Cameroon began with an information-gathering phase to assess the needs, opportunities and challenges faced by MSMEs. The Groupement de la Filière Bois au Cameroun (GFBC) presented their assessment results to SMEs to discuss proposed recommendations and agree on the next steps. They noted that this added transparency to the process, which improved levels of trust and overall engagement in the training programme.

Focus on businesses that display a willingness to become compliant. When partners faced limitations in the number of businesses they could train, they usually applied a set of criteria to select businesses with the greatest motivation and level of success, assuming that these businesses would become models that could compel others to follow their example. These partners reflect that following a rigorous selection process made selected MSMEs feel special, which increased their motivation to take up practices taught during training and decreased "dropout" rates. One partner in Viet Nam emphasized, "We are trying to work with the businesses with this type of long-term interest because they will be the leaders in the sector in the future."

Capacity-building topics must be broadened beyond legal compliance. Often, trainings focused on raising awareness about a law, regulation or system that would become operational in the future. These trainings struggled to attract interest from MSMEs, as was experienced by a project in Viet Nam that designed a comprehensive capacity-building plan that included many of the steps listed in Section 1.1.2. However, it could not be implemented as planned due to low interest from MSMEs in complying with the timber legality assurance system in Viet Nam – which was not yet implemented and therefore not affecting their business operations. A core way to overcome this issue is to expand capacity building to other topics relevant to MSMEs – such as business skills development and production of value added products. This is discussed in detail in Section 1.2 below.

Testimonial

> *In 2016, I got to know ASD who explained to us within the framework of their RELEMDOT project that we could work legally. I did not believe it because I thought it was the business of the "big fish" who have a lot of money. I thought it was a dream that could never come true. In 2018, based on those who formalized before me and who also encouraged me, I currently work legally. I can say loud and clear that thanks to ASD, I enjoy my job perfectly. I see the difference between me and those who are formal today, and my colleagues who are not. [A woman-led business is] like a myth for some people. They want to know who is behind this woman who has been able to survive in the timber business all this time. It was thanks to my courage and determination that I got there. I thank ASD, who came to revitalize my courage and my determination and made me want to walk on the right path. They came to open people's eyes, and help us understand that it is possible.*
>
> – Ets Meching, Abong Mbang, Cameroon

1.2. PACKAGE LEGALITY WITH BETTER PRODUCTION: REINFORCING BEHAVIOUR CHANGE WITH TECHNICAL AND BUSINESS SKILLS

> *Previously we had all our details and important paper loosely kept in drawers, on table and envelopes which sometimes get destroyed by rain. But now with the insights into the FLEGT requirements and the wood tracking system … we have organized our system and now operate a good filling system.*
>
> – Sir Charles Wood Processing, Ghana

As described in the previous section, capacity building for legality compliance is a fundamental step for helping MSMEs access sensitive consumer markets and undertake the formalization processes that are an important prerequisite for enterprises to grow and contribute to local economic development and the provision of livelihoods. Across the regions, partners echo what other practitioners have long recognized: capacity building towards legal compliance needs to be associated with technical training on good business practices and improved production skills. These three topics are best combined into a single capacity-building package, recognizing that all three are necessary and mutually support each other in improving MSME operations.

1.2.1. What types of technical and business skills are needed?

This shift towards business skills and marketing is crucial for enabling newly legal operators to capitalize on the benefits of legality through enhanced market access. This awareness is especially prominent in Indonesia, currently the world's only country exporting FLEGT-licensed timber to the European Union. Upon becoming legal, several MSMEs found that they could not access new markets without improving the quality and design of their products. Necessary skills include:

- accounting and financial management;
- workshop and production site layout optimization;
- product design and creation of value added products;
- equipment operations and maintenance;
- transformation techniques that improve efficiency;
- wood treatment techniques (drying, painting, polishing and lacquering); and
- marketing and pricing.

These skills and support are seen as necessary to achieve the quality expected in the markets targeted and are increasingly being requested by MSMEs.

1.2.2. Examples of strategies for deploying training to develop technical and business skills

Consequently, many partners designed trainings for legal compliance that included modules on the above topics. For example, in Côte d'Ivoire, a local

partner trained artisans in the process of legal registration as well as techniques for using wood chips to make planks. A government agency in Peru developed an entire curriculum linking technical and business skills development (Box 6). These types of training are attractive to operators because they directly result in concrete improvements and economic benefits.

BOX 6

Peru – Legality through creating a business skills training programme

In Peru, it is estimated that the wood industry directly sustains more than 240 000 families. Strengthening the capacities of small entrepreneurs promotes forest conservation and ensures that raw materials are available for a wide range of products, helping reduce poverty, preserve biodiversity and promote a more just and inclusive society. The wood industry needs to improve the capacities of companies dedicated to the harvesting, processing and trade of wood, ensuring both the availability of natural resources and the responsible growth of the industry.

For these reasons, the Centro de Innovación Tecnológica de la Madera (CITEmadera) collaborated with the World Resources Institute, the GTF and the International Tropical Timber Organization to design a training programme for MSMEs. It also conducted a series of pilot workshops, which reached 206 people representing 149 organizations. The programme consisted of four modules: (1) Business Competencies for Timber Industries, (2) Administrative Management and Formalization, (3) Operations Management and (4) Improving Business Management.

Providing training on both legality and business skills allowed CITEmadera to deliver its core message, which is that the core of a business should be responsibility and sustainability beyond marketing. The pilot trainings advised the revision of the training materials and modules, which resulted in their being adapted into a virtual training format that was rolled out in Colombia and Peru in 2021.

Providing training on improved technical skills may be one of the most important interventions to improve legality or sustainability and contribute to livelihoods, because it reduces waste while generating more income. In Ghana, the Timber Industry Development Division (TIDD) estimates that training processors to improve their recovery rate by only 5 percent would produce an additional 60 000 to 70 000 m^3 of processed timber that can be added to the domestic market without felling an additional tree. Every aspect of production has a significant impact, even down to the little things, such as how the saw is sharpened and how the workshop is laid out. The margin for improvement is great; TIDD estimates that most wood mizers have a recovery rate of 60 percent, but with training, this can increase to 80 percent.

> *This training is so crucial to maintain the unique Lao wood carving skills. With this training, it can transfer our Lao traditional handicraft occupation to the next generation. The improved quality and design of the products with higher values will increase more income for households while you can utilize the limited amount of timber and waste wood to produce art works.*
>
> – Department of Industry and Handicrafts, Lao People's Democratic Republic

Higher quality leads to increased income for MSMEs. In Guyana, GFC reports that they often see communities who might purchase and process 20 m^3 of material, only to receive payment for less than 20 m^3 when buyers claim that some parts were of poor quality. Helping MSMEs improve product quality could enable them to command higher prices for their work, commensurate with the quality.

While it is not feasible to purchase improved machinery for all MSMEs to develop more sophisticated products, organizing trainings and learning exchanges leads to concrete improvements in MSME performance. Continued support to craftsmen to provide new skills, equipment, machines, and the use of new technologies will improve their products and enable them to earn more income from fewer trees. This will increase the supply of timber on the domestic market and reduce demand for illegal timber.

1.2.3. Lessons learned

When business and technical skills development is incorporated into capacity-building programmes for legal compliance, it does not only ensure buy-in and active participation from MSMEs in trainings that would have otherwise focused only on legal compliance. A number of synergistic effects are also observed, which could not have been triggered through trainings solely on legal requirements.

Skills development trainings address a root cause of the "lack of awareness" of legality that leads MSMEs to be non-compliant. This lack of awareness often results because MSMEs cannot justify putting operations on hold and losing wages to attend training and informational events about legal requirements, which are not perceived as economically beneficial. Consequently, MSMEs remain unaware of their legal obligations. By packaging these three elements together, perceptions of legality can be shifted towards being a value added factor as important as using improved processing techniques for increasing the value of a product.

Improved business skills catalyse change in thinking patterns, making MSMEs more receptive to the idea of legality and formalization. In some countries, after undergoing financial management training for MSMEs, operators became more aware that they were operating at a loss and began to look more seriously at the costs incurred in running their businesses. As they sharpened their focus on improving their business operations, they began to see the case for how

formalization and legal compliance could provide them with access to critical services needed to grow their business while also avoiding potential penalties.

Testimonials

> *We are more aware of the proper use of wood, now that we know that it has a much higher cost and we are aware of the environmental issue... If I have my carpentry shop and someone else has a craftsmanship that does much smaller jobs, he can come to my business and buy scraps of wood. Then he looks for what he can find. This has made a difference not only in my company but in several companies and also in the people behind the other employees.*
>
> – Bosque y Vida cooperative, Guatemala

> *For MaderFormas, it is important to participate in this training to update our skills, learn about our sector and see new opportunities that exist in the market and that we are not taking advantage of yet. It opens the possibility of making strategic alliances with other entrepreneurs, with mutual benefits.*
>
> – MaderFormas, Colombia

1.3. INTEGRATE MSMES INTO VALUE CHAINS: EXPLORING NEW SOLUTIONS FOR ACCESSING RAW MATERIALS AND MARKETS

> *Legal compliance via the SVLK is a ticket for Indonesian furniture and craft SMEs to enter the international market, especially the European market.*
>
> – Indonesia Furniture Industry and Handicrafts Association, Indonesia

For artisanal loggers and chainsaw millers, primary and secondary processors, and furniture and handicraft manufacturers, access to a legal source of wood is a prerequisite to operating legally. In the Philippines, wood processors cannot obtain permission to operate without demonstrating that they have access to a wood supply that will sustain their operations. However, in many countries, the structure of the forest sector can make it difficult for MSMEs to gain this access. For example, forest harvesting rights may be concentrated among a few large industrial companies uninterested in doing business with MSMEs, as is common in Africa. In the Lao People's Democratic Republic and in Myanmar, legal timber is typically obtained via a government-run auction, and MSMEs are often unable to access or make competitive bids at these auctions. For these structural reasons, concrete actions are often necessary to integrate MSMEs into legal timber value chains, helping them secure a legal source of timber and form business relationships with upstream and downstream companies.

1.3.1. What are the challenges of integrating MSMEs into value chains?

However, *maintaining* a legal supply source is more complicated than *gaining* access to supply. This analysis considered 35 initiatives that sought to integrate MSMEs into supply chains, usually by facilitating supply contracts between lead companies and groups of MSMEs, such as associations of chainsaw millers or artisanal operators. While these initiatives have yielded several successful business partnerships (see Box 7 below) and highlighted a number of lessons learned on making these relationships work, they are difficult to scale up or regularize due to a lack of structural incentives for lead companies to work with MSMEs. For example, in Côte d'Ivoire and Cameroon, tax incentives are needed to motivate industry actors to sell a greater percentage of their production to SMEs rather than comparatively more lucrative export markets.

BOX 7

Guatemala – Partnerships between MSME carpenters and large-scale industry

In Guatemala, the facilitation of a partnership between two cooperatives, Carmelita cooperative, a forest concession holder, and Bosque y Vida, a carpenter group, increased the supply of legal timber and improved legal market access. In addition to supplying Bosque y Vida carpenters with legal timber from the Department of Petén, the Carmelita cooperative also provided training to the carpenters on wood grading, scaling and storage, as well as on marketing and business strategies. The Carmelita cooperative also benefited economically from value added tax exemptions by selling wood to the carpenters. Joint efforts have led to the creation of a legal timber depot in the region, which further facilitates the access of carpenters to legal raw material – key to maintaining competitive prices for legal timber. This experience has revealed three essential factors that are needed for the successful creation of future partnerships of the kind:

1. The partnerships must be mutually beneficial on a business level.
2. The partnerships must be formalized through a commercial agreement.
3. Guarantors must be present, such as CSOs or government officials.

However, these partnerships are more likely to be successful when the cost of legal timber is competitive. The carpenters group and their partner, Asociación Balam, emphasize that law enforcement remains critical to halt illegal timber trafficking and prevent cheap illegal timber from distorting market prices in a way that penalizes operators working with legal timber.

These business relationships are also challenged by a lack of business know-how on the MSME side. Negotiating business deals becomes complicated, as MSMEs lack information on market prices and consequently have unrealistic expectations of the quality of the timber for the prices they are willing to pay. Micro, small and

medium-sized enterprises also purchase wood in small quantities, make infrequent purchases and request non-standard sizes that can be impractical to fulfil. For example, they may demand uncut 5 m long wood when 2.4 m would be sufficient for their intended use.

To overcome this challenge, it is necessary to provide business skills training to MSMEs at an earlier point (together with capacity building on legal compliance, as discussed in Section 1.2) to avoid instances where a lack of knowledge on constructing a proper order would lead to a breakdown in negotiations. Intermediaries are also critical for negotiating business deals between MSMEs and lead companies, as both may be reluctant to engage in these processes.

1.3.2. Examples of strategies for integrating MSMEs into legal timber value chains

The remainder of this section explores new and emerging solutions for integrating MSMEs into legal value chains by addressing two main problems: (1) lack of access to a legal timber supply and (2) lack of market access. The former problem is primarily experienced by processors, manufacturers and artisanal chainsaw millers, while the latter is experienced by processors and producers, such as smallholder tree growers.

Lack of access to a legal timber supply

Fostering business-to-business communications

> *[The business-to-business meetings were] very fruitful because it is a space that opens doors for us so that we can learn to negotiate. It was a great learning opportunity because it is the first time we have attended an event of this type. It was an achievement to be there working and exploring future business possibilities.*
>
> – Representative of the Bocas de Taparal community, Colombia

Several local partners actively "matchmake" MSMEs with lead companies through facilitating business-to-business dialogues, resulting in business deals where dialogues are combined with site visits that allow the two parties to visit each other's facilities. These dialogues provide a forum where legally operating enterprises can demonstrate their ability to provide the documentation and traceability information, such as value added tax (VAT) invoices, needed to form linkages with supply chain actors producing for sensitive export markets. Interviews with medium to large enterprises in Viet Nam, who primarily export to the United States of America and the European Union, revealed that they primarily looked for subcontractors that could issue VAT invoices, as this was critical for them in verifying legality in their own supply chains. Associations often foster such dialogue and "matchmaking"; the Viet Nam Timber and Forest Products Association (VIFORES) offers its members linkages to lead firms and

provides letters of support. In 2021, VIFORES established a partnership with TAVICO, a large importer and distributor of logs and sawn timber, to provide showrooms for members of wood villages to display their products. TAVICO has displayed a commitment to continue to work closely with these wood villages and support the establishment of a Subassociation of Wood Villages under VIFORES.

Formation of associations to create commercial linkages between MSMEs and supply chain actors

> *I believe that the cooperative is a good opportunity for artisans and SMEs to resolve the issue of legal timber supply. Frankly, it is impossible for an individual craftsman to comply with legal and regulatory requirements in terms of wood. If I only take my example as a craftsman, it is not possible to go into the bush to look for legal wood because I do not know where to find it in Yaoundé outside of the cooperative, which at least provides us with formal invoices. So by joining the cooperative, I am sure that I have settled an important part of my activity in raw materials. I have tested the cooperative's promotion wood, I do not find any problem. I sincerely believe that we have taken a big step.*
> – Adviser at the National Office of FECAPROBOIS and member of COOP-CA EXTRABOICAM, Cameroon

Grouping MSMEs into associations can help overcome supply barriers and enables bulk purchases that are more attractive to industrial companies. Associations facilitate the development of commercial links between forest concessions and small operators.

- **Undertaking collective bargaining:** Micro, small and medium-sized enterprises are commonly motivated to join associations by the prospect of receiving fair prices for their supplies and products through collective bargaining. Cooperatives or associations can compile data on member resources to achieve favourable terms for the purchase or sale of legal timber. For example, in Mozambique, provincial associations can now provide a platform for joint price negotiation. While in Côte d'Ivoire, the Syndicat des Producteurs Industriels fostered the signature of 13 industrial MSME collaboration agreements, resulting in the delivery of several orders of legal timber to MSMEs. A notable argument for collective action has been observed by the European Forest Institute in Myanmar, where associations receive preferential treatment when purchasing timber at government auctions, encouraging formalization and addressing critical shortages in raw materials among MSMEs.
- **Pooling resources to make purchases and business deals:** Without grouping together, MSMEs can struggle to fulfil a business deal with a lead company.

This is because individual MSMEs often face potential pitfalls when they lack the bank accounts or cash funds needed to prefinance orders and receive payments, or the equipment needed to fulfil the order (such as computers, for online orders). These elements are difficult for individual operators to fulfil, but can be facilitated by associations. In Côte d'Ivoire, the association Groupement des Artisans des Métiers du Bois de Yopougon collected XAF 22 million (USD 40 000) from its members to collectively purchase a piece of land to set up their workshop, with the intention of establishing a centralized timber purchasing centre.

- **Positioning members to create value added products and access new markets:** Associations can act as a catalyst towards encouraging their members to enter into new markets or use their resources to increase the value of their products. In Guatemala, Asociación de Exportadores de Guatemala (AGEXPORT) analysed export statistics and calculated earnings per cubic metre for different types of products to demonstrate that furniture generated five times as much money per cubic metre as sawnwood. This motivated their members to begin producing value added products and helped them define a marketing strategy to compete against other international furniture producers. In Liberia, the National Charcoal Union (NACUL) also provided market analysis training to charcoal producers, enabling them to analyse market needs and customer demands before making interventions.

Establishment of legal wood depots, centralized purchasing centres and legal log yards

Programme partners across countries and regions are independently coming to the same conclusion that timber transport costs remain too high of a barrier for MSMEs and that MSMEs generally struggle to obtain fair prices when buying legal timber. An increasingly common solution is to establish centralized wood storage and purchasing centres. For example, small-scale enterprises in Guyana expressed concerns that they did not receive fair prices from sawmillers that reflected the quality of wood. Establishing a consolidated log yard could address this by offering prices in accordance with timber quality. By combining logs from various locations and producers in a centralized location, consolidated log yards allow stakeholders to combine resources to achieve greater efficiency and better market opportunities. It also facilitates the purchasing process by promoting the consolidation of wood orders, identification of suppliers, negotiation of purchasing conditions and management of calls for tenders. AVSI notes, "The creation of a purchasing centre will finally allow artisans to source legal timber and, above all to avoid having a shortage of raw material." While these initiatives have not yet been completed, given the time needed to legally establish, build and fund the operations of a centralized log yard or depot, the following lessons are offered:

- **Feasibility studies can ascertain whether such centres are viable:** In Côte d'Ivoire, a feasibility study to establish a purchasing centre to supply legal

timber to MSMEs concretely quantified the cost needed and affirmed that the centre could return this initial investment by the end of its second year of operation. These feasibility studies need to include concrete data on the establishment and operational costs, and recommendations for conditions on financing agreements and calculation of the volume of timber, together with the pricing and export arrangements needed for the centres to be viable.

- **Provision of additional services increases economic feasibility and market access:** In Guyana, a feasibility study conducted by the Guyana Services and Manufacturing Association (GSMA)[24] compared models for consolidated log yards considering the political, economic, social, technological, legal and environmental contexts of the forest sector in Guyana. It found that the models supported by stakeholders would not be economically viable unless additional services were offered, especially wood processing, to increase value added per cubic metre. Other services include marketing, a virtual trading platform and enabling exports. This illustrates that a log yard model can mitigate the need to recoup costs by adding price mark-ups to logs – an option that was not acceptable to most Guyanese stakeholders.
- **Public–private partnerships increase the probability of success:** In Ghana, the majority of stakeholders expressed a preference for a public–private log depot, as this type of partnership utilizes the strength of both actors – business management expertise from the private sector and oversight, and enforcement of rules and regulations from the government – while also creating accountability and mitigating the risks associated with either one of these actors managing the depot alone. This was also the preferred option in Guyana, as the GSMA feasibility study found that partnerships with the private sector bring business and technical expertise that is otherwise lacking.
- **Government intervention is necessary to address barriers to success:** The feasibility study[25] carried out in Ghana concluded that the establishment of a legal timber depot would not be feasible unless several existing measures were implemented to combat illegal logging and improve law enforcement – to reduce the volume of low-price, illegal timber competing with the depot – and to improve timber supply to the depot, such as through holding companies accountable to a legal requirement to supply at least 30 percent to the domestic market. New measures would also need to be implemented, including government standardization of the price of legal wood to ensure its competitiveness with illegal wood.
- **Strong management is essential for profitability:** The feasibility study in Côte d'Ivoire identified weak management as a financial risk affecting the potential profitability of the wood purchasing centre, emphasizing the need to staff the centre with competent professionals and establish strong management systems and controls. For this reason, AVSI convened several meetings to discuss the centre's management and develop legal statutes and rules.

Promoting the use of secondary timber species

Micro, small and medium-sized enterprises can access a broader supply of legal timber if they have access to secondary timber species, that is, lesser-known species not traditionally used for commercial timber production. They are uniquely positioned to exploit these species, which can occur in volumes too low to be used by industrial actors. These species are not usually attractive to the export market, making them more affordable for MSMEs. In many countries (Colombia, Cameroon, Côte d'Ivoire, Ghana and Viet Nam), partners are coalescing around the need to research and test lesser-known, secondary species to supply the domestic market.

Such research is critical, as MSMEs cannot begin working with these species until information on their strength, durability, wood-working properties and abundance is available. Otherwise, MSMEs may be unable to use them, if the species have physical and mechanical properties that require stronger or specialized processing or drying equipment. For this reason, resources need to be devoted towards researching and developing guidelines for using these secondary species. For example, the Food Forestry, Environment Protection and Conservation Society in Cameroon developed a technical guide on ten local secondary tree species suitable for furniture work, and distributed it to carpenters. Research results can also be used to inform consumers and traders, and shift market demand away from traditional species. Further lessons include:

- **Government research bodies are well placed to compile information on lesser-known species:** Many governments have forest products research institutes or laboratories with the expertise to conduct research that can be shared with the industry. In Cameroon, the Promotion Centre of the Ministry of Forestry and Wildlife (MINFOF) would have a role in promoting these secondary species, and future programmes could collaborate with government research bodies to do this. In Ghana, TIDD conducted studies to assess the viability and supply of lesser-used species for the domestic market and is actively working with other partners to raise awareness of this possibility.
- **Shifting to lesser-known tree species creates an entry point for product innovation:** In Colombia, RED FAISAN built prototypes of wooden string instruments using ten types of secondary wood species, nine of which were unknown to producers beforehand. Of these species, three were found to meet product quality and acoustic standards, while another three could meet standards with further experimentation. RED FAISAN found that experimenting with these species also forced them to look at overall instrument design and innovate upon previous designs to improve their aesthetic appeal and quality. "It was not foreseen that we would undergo this wonderful learning process that is going to help a lot for the future," they noted. "Now what we are doing is that we have very nice and wonderful instruments, and they look good." They found that sourcing these new,

legal species helped break the vicious circle in the relationship between the instrument manufacturing sector and illegal wood traders, who impose arbitrary conditions in terms of availability of species, qualities, volumes and prices, while also ensuring the long-term viability of the *luthería* sector in Colombia.

Lack of market access

Trading and marketing e-platforms

The movements towards e-marketing and digital platforms have been underway in the forest sector for some time. In 2017, CITEmadera in Peru conducted a study that analysed the main barriers for MSMEs in Peru and identified the need to buy raw materials, process, add value and sell finished or semi-finished products through a virtual channel. However, the shift to online transactions within the context of the COVID-19 pandemic has accelerated the development of these platforms (see Box 8). Several other organizations have developed such platforms since then:

- **Cameroon:** CIFOR and MINFOF collaborated to develop an online platform for the internal timber market to facilitate and expand the supply of legal timber in the region, identified as one of the main challenges to the development of an entirely legal, domestic timber market. MINFOF grants access to suppliers based on strict compliance with legality requirements. A beta version of the platform was tested but not assessed due to time constraints.
- **Colombia:** The Colombian National Federation of Wood Industries (FEDEMADERAS), in collaboration with the Worldwide Fund for Nature, the European Union and the Ministry of Environment and Sustainable Development, worked within the framework of the Intersectoral Pact for Legal Timber to develop the Elija Madera Legal portal. The platform links MSMEs to public buyers of timber products and includes an online catalogue with over 200 verified legal timber products. The portal was designed to recognize the positive actions of companies that undertake efforts to legalize their operations and boost their credibility and business reputation. Many businesses listed on the platform have expanded their operations, leading to improved awareness of economic legality benefits across the sector.
- **Indonesia:** Local CSO Aliansi Relawan untuk Penyelamatan Alam (ARUPA) established the Woodenasia e-platform to matchmake community forest owners with processors, effectively linking supply with demand. It began as a Facebook forum page and evolved into a full-scale online platform once the pandemic began affecting local businesses. "Woodenasia was established in the middle of a situation that nobody wanted," ARUPA staff noted. The platform currently features over 200 timber, furniture and handicraft items produced by verified, legal MSMEs.
- **Indonesia:** Lembaga Studi Ekosistem Hutan developed a similar Business Portal platform, which links buyers and sellers of finished wood products

and furniture. However, the innovative aspect is its linkage with data collection on the impacts of the SVLK of Indonesia. Enterprises must upload data into the SVLK Impact Monitoring System to gain access to the portal and market their products, which provides an incentive for MSMEs to contribute to real-time monitoring of livelihood and economic impacts of the SVLK. Two hundred and fifteen enterprises from Java participated in the survey and gained access to post 144 furniture and handicraft products to the portal.

- **Guatemala:** INAB has developed the Online Forest Market of Guatemala, an online platform to address market access issues. The website is designed to promote small timber producers and processors so that they can post their products and have direct access and communication with the market in a more secure way. Only legal businesses registered with the National Forest Registry are allowed to use the site so that INAB can monitor and guarantee that their products are legal. Even though INAB has done relatively little digital marketing to promote the site, they report large numbers of visits from the United States of America, Asia, Europe and other Latin American countries.
- **Viet Nam:** HAWA developed a virtual platform known as the HAWA Online Platform for Exhibition (HOPE), where its members can post 360-degree interactive virtual showrooms. The idea of HOPE is to provide the level of international exposure normally provided by in-person furniture exhibitions before the COVID-19 pandemic. HAWA's online due diligence system also allows non-HAWA member MSMEs to create accounts within the system, which can potentially help them create business linkages with members looking to source timber from legally compliant MSMEs.

BOX 8

Indonesia – A wood paradise with ASMINDO's "Kayutopia"

From 2014 to 2021, the Indonesian Furniture Manufacturers Association (ASMINDO) helped 61 MSME operators (14 MSME groups) in Yogyakarta, Central Java, East Java, and Bali receive legality certification under SVLK and participate in the Yogyakarta International Furniture and Crafts Fair (JIFFINA) where they secured buyers from Europe, Africa, the Republic of Korea and the United States of America. To further reassure the buyers, the MSMEs invited them to visit their factories to see the furniture-making process for themselves in the workshop. For one MSME, CV Slam Furniture, it was their first time securing a buyer from outside Indonesia. Previously, most of their products were sold on the local market, and a portion was also used to supply a few exporting furniture companies in Yogyakarta and Solo, who would then export the products. The company was able to secure repeat purchases of their teak wood furniture combined with elements of rattan and leather:

The SVLK can increase the credibility of MSMEs and trust from buyers, especially buyers from Europe and the United States of America. Buyers feel more comfortable doing business with SVLK-certified businesses because there is a guarantee of the legality of the wooden raw materials used. This is proven in that several buyers from Europe have made repeat orders.

In 2020, the COVID-19 pandemic resulted in a 35 percent decline in the value of furniture exports. Many contracts were cancelled and the cancellation of furniture fairs like JIFFINA – a major opportunity for MSMEs to sign contracts and find new international buyers – further exacerbated the situation.

This opened ASMINDO's eyes to the need to shift to digital marketing: With the pandemic, the whole way of doing business needs to change. ASMINDO also needs to change the way they do marketing. Nobody is travelling and everybody works from home so we need to change how we market… for example, we need a portal with good pictures, a nice showroom to display good products and show MSME products to the world.

To ensure members profit from their legal status by being able to access domestic and export markets, ASMINDO created an e-marketplace, Kayutopia – combining the Indonesia words for "wood" and "utopia". The platform currently features over 350 furniture and handicraft items produced by 42 SVLK-certified MSMEs.

These digital platforms can equalize access to national and international clients when opportunities for physical trading are reduced. However, as with all online platforms, they require recurring costs (hosting and maintenance costs, etc.) and are more likely to pass the test of time if they are sponsored by government institutions or well-established trade federations that are not fully dependent on external funding, and which also have the authority and expertise to ensure that all listed products are legally produced. However, even government-sponsored platforms would benefit from external support in cases when revenue generation from taxes is limited. Additionally, organizations need to carefully plan all the information required for such platforms to become operational in relation to the platforms' marketing, the handling of electronic payments and the development of product catalogues that include high-quality photographs and comprehensive product specifications.

There is also an understandable concern that online e-commerce or digital platforms may not be suitable for MSMEs who produce to order, do not have a permanent stock for sale or do not have reliable internet access. Programme partners acknowledge this challenge but emphasize that ignoring digital solutions is not an option; rather, these solutions must be developed in line with the capacity of the users and be accompanied by awareness raising, usability testing and training. User capacities need to be placed at the centre of the conceptualization and design phase. In Guatemala, partners have observed that intergenerational

knowledge exchanges promote uptake of these technologies – creating new opportunities to engage young people.

Despite the limitations of these platforms, they will likely continue to be improved, developed and expanded for the foreseeable future as they provide efficient solutions to incentivize MSMEs and are a tool to build more sustainable and resilient businesses. One partner in Ghana noted, "We are beginning to understand that technology is the future, and we have to be on board."

1.3.3. Lessons learned

Throughout the course of six years, the Programme was able to evolve from "old generation" to "new generation" strategies for integrating MSME supply chains. The new strategies, that recognize that the use of e-platforms, lesser-known species and consolidated log yards, are more scalable and institutionalizable solutions than the old strategies of facilitating the negotiation of a limited number of contracts between MSMEs and lead companies. However, several lessons exist that are core to the success of both old and new strategies, as both fundamentally come down to business deals between enterprises.

Structural incentives are needed for lead companies to work with MSMEs. Whenever projects set targets of signing supply contracts or fostering business agreements between MSMEs and lead companies, they were usually successful, but these efforts typically led to one-off transactions rather than lasting, sustainable relationships. To catalyse wider "matching" of MSMEs with suppliers and buyers, governments would have to institutionalize structural incentives, such as tax incentives or subsidies, to motivate industrial companies. In the absence of such structural incentives, MSMEs can form associations and cooperatives that enable them to make larger purchases or sales, which are more attractive to lead companies.

External facilitators and guarantors can help overcome trust issues. After a business deal has been made, more problems may arise, such as delayed transport or payment, or requests for additional documentation. In these cases, the presence of a guarantor can help by assuring both parties that the deal will continue. These guarantors can be CSOs, such as NGOs, peoples' organizations and other non-state actors, but they are usually private sector associations. In the Central African Republic, the association of La Lobaye, formed by the local CSO Centre de Recherche et Appui au Développement, supported its members to legally secure a supply of raw materials by requesting and obtaining authorization from the forest administration, which allowed them to transform wood abandoned by an operator. Some Programme partners experienced breakdowns in negotiations due to miscommunication, but ultimately commercial transactions were concluded after mediation from these external facilitators. The next section will explore how strengthening these external facilitators can multiply the benefits that MSMEs accrue beyond supply chain integration.

Testimonial

As an entrepreneur in the export wood processing industry, [this support] is very beneficial for us and it can reduce export costs. And we are more confident in competing in the global market. After this new normal, exports of furniture products have increased. This impacts the enthusiasm of business actors to obtain SVLK certificates.… so that our other friends of the same profession can benefit from this.

– CV Ride One Gallery, Indonesia

Pillar 2: Establish strong support structures

2.1. FORM AND STRENGTHEN ASSOCIATIONS: POOLING STRENGTH MULTIPLIES BENEFITS FOR MSMES

> *Only by working together and collaborating can we solve our problems with the lack of wood. Organizations like AVSI help us in this process, but we carpenters must understand the importance of creating a federation for our survival.*
>
> – Association des Professionnels du Bois en Côte d'Ivoire, Abobo, Côte d'Ivoire

Associations have been mentioned in earlier sections as a means of creating long-term support structures for MSMEs, which can also enable increased economies of scale in purchasing, producing and providing greater bargaining power.[26, 27] This is critical given the vastness of the forest sector, where outreach to individual forest businesses is not a feasible approach to achieving a meaningful scale of impact. However, this scale can be achieved through working with federations or associations, which provide critical entry points to gaining access to larger groups of enterprises.

This section provides greater attention to the topic of associations, based on the premise that not only do associations address the issue of scale, but strengthening associations offers "multidirectional benefits" such as increased membership, network building, market access, and better representation. In other words, supporting associations create a virtuous cycle: stronger associations can bring more benefits and services to their members. This attracts more members and funding, further strengthening the association, so the cycle of benefits and strengthening can continue.

2.1.1. How do associations work?

Across Asia, Africa and Latin America, the Programme worked with a range of different types of groupings which, for the purposes of this paper, are all considered under the umbrella of "associations" whether or not they have profit-seeking (i.e. cooperatives) or not-for-profit (i.e. unions, federations) structures. Some of these grouping types may overlap. The categories considered in this paper are defined as:

- **Apex-level organizations:** cross-sectoral industry associations or federations that operate at a national scale to advance a common set of industry interests.
- **Unions and federations:** entities that group together multiple associations, whose membership may consist only of MSMEs or enterprises of multiple sizes.
- **National and regional private sector associations:** groups of companies that represent industries of different sizes within the forest sector.
- **Local associations:** associations formed at lower levels of political jurisdictions, such as provinces or regions, usually which solely represent MSMEs.
- **Cooperatives:** groupings of timber producers and processors that have a business mandate to purchase or sell products jointly and share revenues among members. In some cases, associations may function as cooperatives but this is not always the case in countries which require separate registration for cooperatives as profit-seeking entities.

The legitimacy of associations is derived from the benefits they provide to their members and their government partners. As one association leader in Liberia noted, "It is important that the list of benefits be long, because everyone will have different needs." This is why a key focus has been strengthening associations to enable them to provide services to their members (see Box 9). While this list of services is drawn from interviews with local partners, it is supported by the Association Surveys for Knowledge[iii] conducted by GTF in 2019, which collected data from 114 associations in 40 countries representing 52 600 businesses.

BOX 9

Ten main services provided by Programme-partner associations

Programme support to private sector associations has specifically enabled them to provide the following services, many of which they previously lacked the capacity, expertise or network to provide.

1. **Training:** Capacity building and technical support towards achieving legal compliance, formalization, technical skill building and better business management.
2. **Better price control:** Helping members secure access to raw materials through government auctions, group purchasing or joint price negotiation.
3. **Market connections:** Linking members with potential customers, clients and markets.
4. **Information sharing:** Provision of information on markets, the regulatory framework and regulatory developments.
5. **Advocacy:** Serving as an intermediary between companies and government.

[iii] All regional and national Association Surveys for Knowledge reports are available at: www.gtf-info.com/Programme/association-surveys-for-knowledge/

6. **Speaking in one voice:** Representing members at work tables and in policy dialogues, and ensuring that the private sector is involved in relevant decision-making.
7. **Connections for learning:** Fostering networking opportunities and business-to-business learning.
8. **Dispute resolution:** Conflict mediation and adjudication of members' problems.
9. **Legal support:** Provision of legal support and protection to members.
10. **Tools:** Development of technological tools and platforms that facilitate member legal compliance or market access, or both these things.

The versatility of associations gives them scope to envision and implement new ways of supporting MSMEs and achieving what many describe as their core concern: creating a level playing field. Most interviewed associations reported member concerns to the effect that they cannot compete with the low prices of illegal timber, with one association in Colombia noting that its members pay for social security, full labour costs, their taxes and the legality of environmental as well as transport issues – and that this is a heavy economic burden when these members also have to compete against illegals who do not pay taxes and who evade labour compliance. Some associations have been able to address this challenge by lowering the cost of legality by helping MSMEs form groups or by advocating for regulatory reform to enable the provision of subsidies for legal certification.

2.1.2. Examples of strategies for strengthening associations

When associations can secure external support, they can improve and expand their services and systems in support of members, including MSMEs. There are several pathways to strengthen an association, which are reflected in the broader lessons below:

- improving the technical knowledge and project management skills of association staff;
- enabling the association to provide new, additional services to its members;
- increasing the association's visibility and credibility;
- enhancing communication with members and understanding of member issues;
- ensuring financial sustainability and continuity of work;
- broadening networks and client relationships;
- rebuilding momentum to revitalize inactive associations;
- developing internal institutional policies and practices; and
- formalizing or merging new associations and federations.

Conduct association-specific training using existing training frameworks and institutions. The GTF developed an Association Training Framework, which includes modules on financial management, the establishment of an association

structure, strategic planning, the provision of regulatory and market information, and other key topics. This type of framework can be further updated or referenced in newly created training materials specific for MSMEs, and it can be adapted to national contexts and translated into regional languages. The Programme's work with associations identified the need for particular focus on capacity building in:

- **Member communications:** Specific technical assistance is needed to work with associations to develop member databases that can collate specific facts and figures critical for the provision of services and for representing members and expressing their interests to government (such as the number of employees, annual sales and annual production).
- **Financial sustainability:** A detailed assessment of successful financial models and case studies can be compiled into an expanded training module on association finance or be used to train organizations providing technical support to associations. It is critical to prioritize financial sustainability within broader institutional strengthening efforts.
- **Effective capacity-building methods for members:** Associations often need to develop training facilitation skills before they can provide effective training to members, such as designing practice sessions, role plays, field visits and long-term mentoring programmes. The latter is particularly important to provide routine follow-up to training beneficiaries.

The Programme found that independent of association-specific training, capacity was also built by helping associations implement donor-funded projects, often for the first time. The Programme's internal monitoring and evaluation data found that 78 percent of all grantees, including private sector associations, demonstrated concrete improvements, including consistently sound financial management while managing a project. Projects also provided resources to recruit capable technical and administrative personnel, as described in Box 10 below.

BOX 10

Honduras – Technical skills building for an agroforestry cooperative federation

The Honduran Federation of Agroforestry Cooperatives (FEHCAFOR) actively works to build the capacity of agroforestry cooperatives to comply with the legality requirements of the Honduras VPA, and especially its traceability system (Sistema Informático de Rastreabilidad de la Madera, SIRMA). Sawn timber and wooden furniture are the central products of FEHCAFOR's 96 member cooperatives, which also produce wood-based charcoal, pine resin and pine needle handicrafts. Programme support to this work enabled FEHCAFOR to recruit full-time technical staff to provide technical support to the 4 800-plus members of its cooperatives. These technicians can potentially spend extra time in the communities after training, to resolve any additional issues and help cooperatives work through the process of producing timber compliant with the SIRMA.

These technicians enable FEHCAFOR to provide technical assistance in forest protection, management and operational plans, and other topics related to proper forest management. They explain to cooperative members how to use the tools for verifying legality and checking compliance to make them aware of what is needed when they harvest timber. They are also empowered with this knowledge for the sake of monitoring others so that "they have knowledge and can observe that if someone does not carry an invoice with wood, it means that they are illegal."

The technical unit has become permanent, partially financially sustained through offering sawmill services to cooperative members and helping members market sawn wood. FEHCAFOR cites this as a direct achievement of their Programme-supported projects, with its president saying that,

As a federation, the technical unit was strengthened by developing capacities and providing technical assistance to the organizations. Without the support of FAO-EU FLEGT Programme, it would not have been possible to achieve what was achieved in the time that the project lasted.

Link lower-capacity associations with supporting partners. Efforts to strengthen weaker associations require considerable effort and resources. Although it is not possible through relatively short-term grant cycles to transform these associations into leading institutions, it is possible to grow their capacities significantly through fostering partnerships with supporting organizations like CSOs or larger associations and federations. This model was successful as long as the external support does not hamper the association's autonomy or ability to make their own decisions.

For example, the Small-Scale Wooden Furniture Association of Jepara (APKJ) in Indonesia was formed through a project supported by CIFOR. In 2019, APKJ then received its first funds from an international donor to build the capacity of small and medium-scale furniture enterprises in Indonesia to access global markets. Although APKJ continued to rely on CIFOR for technical support, over time, they could independently provide advisory support to their members for achieving certification against the SVLK.

These supporting partners can also be CSOs. In Honduras, the CSO Fundación Democracia sin Fronteras (FDsF) supported the Association of Small Forest Owners and Producers of Eastern Honduras (APAFO) in strengthening their technical capacities and completing the process of formal registration. APAFO requested this support because they perceived FDsF as being "neutral" and not involved with forest sector business. This also benefited FDsF in helping them achieve their mission to improve governance through representation; they saw providing small companies with a voice in policy deliberations and their equal participation alongside larger companies as an essential part of this goal. This is the same reason for which it is critical for these types of organizations to receive support from external sources, to help level the playing field in magnifying the voices and interests of MSMEs relative to well-established and large-scale industries.

Form new associations where there are "vacuums of representation" and evidence of prior organization. Micro, small and medium-sized enterprises often form associations or cooperatives because they understand the need to group together and the benefits of doing so. As one partner in the Central African Republic noted, "As an individual, it is impossible to win a fight. But in associations, they are stronger... individually it is impossible to mobilize resources from the state or partners, but as a group, they have basic documents to respond to calls for tenders." However, there is a risk of creating non-durable representative structures if certain conditions are not met, such as:

- There must be evidence that MSMEs are already informally collaborating, even in the absence of external support.
- Micro, small and medium-sized enterprises must share a clear sense of purpose and vision.
- Additional benefits are available to organized groups, such as access to credit and government support.
- External partners, such as CSOs or larger associations, are available to support and guide the new association with the registration process and development of internal policies.

Local partners emphasize that although external support is almost always needed to form associations, external support is most valuable when it enables newly formed associations to pursue their already established organizational goals. The external entity should act only as an adviser in order to let the association evolve according to its own objectives and vision but never impose anything on them. This ensures that ownership is retained, and that the foundation of existing commitment will be stronger in the long term.

It is also important to emphasize that cooperatives can provide an alternative model of organization, as their main function is to achieve economic self-reliance through the operation of a profitable, jointly owned business.[28] The cooperative model is especially appropriate when MSMEs seek to make joint purchases or form business relationships with lead companies. However, it should only be applied in contexts free from negative connotations associated with the concept of cooperatives.

Group associations together in networks or through forming a federation. The federation of existing associations or other membership organizations offers the possibility of providing support to and representation of MSMEs at the scale needed to deliver benefits to tens of thousands of MSMEs. In some contexts, federations can operate at a higher level of political influence than national associations, with stronger mandates to represent their members in national discussions (see Box 11). They also have broader networks of partners and members. For this reason, it has been desirable to form federations in several countries as more powerful support structures.

While associations play strong representative roles, federations can get MSMEs "a seat at the table" in national political dialogues they would have been excluded from

otherwise. For example, in Côte d'Ivoire MSMEs previously were not represented within the country's VPA Technical Committee, where representatives from the large industrial sector relayed their concerns. To combat this, AVSI integrated six associations into the existing Fédération des métiers du bois de Côte d'Ivoire in the hope that the federation would enable MSMEs' voices to be considered more seriously in the sectoral dialogue. Strengthening this federation would help it structure the actors in the Ivorian wood sector and offer a more inclusive representation of its member associations and the MSMEs they represent.

BOX 11

Mozambique – Creation of a timber federation

The Mozambican Association of Timber Operators (AMOMA) formalized the creation of the country's first timber federation, the Mozambican Federation of Timber Operators (FEDEMOMA), bringing together 16 associations representing nine provinces. These associations, in turn, consist of an estimated 600 enterprises, including 100 forest concession holders and 180 charcoal producers.

FEDEMOMA was created to reduce the constraints faced by the private forest sector when trying to fulfil its role in forest governance as one of the government's main interlocutors, namely the lack of coordination and representation mechanisms. AMOMA emphasized the importance of associating, noting that they "can only go far when we are organized, because otherwise… it becomes difficult to find favourable solutions if we do not collaborate with one another."

The creation of FEDEMOMA will encourage and facilitate dialogue between the public and private sectors. In addition, FEDEMOMA has an ambitious 20-point policy agenda that outlines the decrees and requirements they wish to review and provides recommendations for revision or simplification. Their status as a federation means that an effective dialogue between parties can be conducted to make progress on this policy agenda towards improving forest governance, contributing to more sustainable management of forest resources and creating opportunities for socioeconomic development through the legal, sustainable and responsible production and trade of timber products.

Forming a federation has similar requirements to establishing an association in terms of official registration, development of standard operating procedures and regulations, and identifying funding sources. The additional factors to be considered are related to ensuring fair representation through considering existing representative structures. For example, federations may be created through merging existing associations or federations. Where federations group MSMEs and industrial companies, it can be difficult to reconcile their different objectives. Without attention to existing structures, these mergers can create complications as different "factions" of stakeholders can emerge, leading to internal instability where actors compete for better representation in the federations' overall mandate.[29]

Create a "pull effect" on local associations by enabling leading national associations and federations to provide more services to members. Certain companies and federations may have more experience than others in best practices. The leadership example that they set, combined with global market trends, creates a pull on weaker federations and companies, resulting in increased compliance and awareness. At the same time, this fosters a sense of "partnership" rather than competition or dominance by certain interests over others. These leading federations and associations are often the only private sector institutions with the resources and expertise to provide the technical training their MSME members need. They can also provide services and take on tasks that individual or decentralized associations are not well positioned to perform, such as collaboration with central governments.

Although they are often financially stronger than other types of associations, influxes of donor funding can enable them to launch new initiatives that create momentum both within the private sector and with the general public. This external investment in leading associations is best provided when it can catalyse new initiatives, such as building networks of associations, providing new services or reaching a new membership base. A few examples of critical services are provided below.

Facilitating legal compliance: Monitoring legal compliance as a service

Not only do associations provide support which helps members achieve legal compliance, but they can also serve as officially recognized intermediaries in verifying the legality of their members. One such example is FEDEMADERAS which worked with partners to adopt a set of Legality Verification Principles compiled in collaboration with 12 government partners (see Box 12). Producers and businessmen now ask FEDEMADERAS to do more work related to legality and help them strengthen their companies' legal compliance efforts.

If associations received mandates to serve as clearinghouses for legality information and verification, they could potentially obtain revenue for providing this service, which would improve their financial sustainability. Providing this service would help greatly in remote areas without internet or phone access. In Honduras, many agroforestry cooperatives are located in areas without phone signal or internet access and face difficulty using the modules in the Honduran traceability system. FEHCAFOR is exploring the idea of creating an information centre within the federation so that agroforestry cooperatives can take their information to FEHCAFOR, and then FEHCAFOR can feed it into the server. To this end, FEHCAFOR created a database that includes legality baseline data for 58 cooperatives, which could serve as a foundation for such an information platform. However, if associations are to provide such a service, governments would likely need to verify that these associations have the necessary systems and capacity. For example, in Viet Nam, HAWA is trusted to collate legal compliance data in its association-level due diligence system because this system has key elements in place, such as an overarching policy statement, standards and procedures, a robust governance system, periodic evaluations and complaints mechanisms.

BOX 12

Colombia – Lead associations create a "pull effect" on other associations

The Programme has collaborated with the Colombian National Federation of Wood Industries (FEDEMADERAS) since 2015 to build the capacities of MSMEs in legal compliance and facilitate the creation of legal business opportunities. Between 2015 and 2021, FEDEMADERAS assisted 61 MSMEs in determining barriers to legality and drafting targeted action plans to address the weaknesses identified. The federation also trained the MSMEs on existing environmental regulations and legality principles. As a result, 60 enterprises reviewed and edited their company policies against established national legality standards, and proceeded to further phases of technical assistance in areas such as fiscal obligations and responsible purchasing. Ultimately, 30 companies adopted the Legal Verification Principles.

To expand the access of small timber operators to legal markets, FEDEMADERAS facilitated exchange meetings between MSMEs and legal timber suppliers as well as creditors catering specifically to the forest sector. During this period, FEDEMADERAS improved their project management skills, broadened their technical scope and narrowed their focus down to the regional level. The success of FEDEMADERAS has inspired smaller associations like the Santander Musical Instrument Manufacturers Network Corporation (RED FAISAN) and the Sustainable Productive Forest Association to provide a similar array of services to their own members.

FEDEMADERAS is considered a point of reference for the Colombian legal timber market, accumulating over 18 years of experience representing 800 timber enterprises, establishing partnerships and advocating for the timber sector and timber legality. In 2019, for example, FEDEMADERAS partnered with the European Union, the United Nations Office on Drugs and Crime, the Worldwide Fund for Nature and JCDecaux for the development of a national legal wood public awareness campaign called Madera Legal. As part of this campaign, FEDEMADERAS designed visual materials which were displayed at major public transport hubs in Bogotá, Cali, Pereira, Bucaramanga and Manizales.

Serving as "safety nets": Providing legal protection, conflict mediation and organizational defence

The credibility and outreach capacity enjoyed by associations enables them to serve as safety nets, protecting members during legal disputes or serving as mediators during conflicts. In Mozambique, AMOMA reported an event where they defended members from being wrongfully prosecuted for possession of illegally logged timber. In Liberia, NACUL reports that legal representation support is a welcomed by individual charcoal producers, who may be treated unfairly by large buyers. This mediation can also protect both livelihoods and forests. In Honduras, in cases where an agroforestry cooperative is facing serious problems with deforestation, the Consejo Hondureño para la Certificación

Forestal (CH-CFV) can intervene on their behalf to request support from the municipal environmental unit to visit the community and address the issue. This mediation support also has the added benefit of boosting an association's credibility, building member trust in their other services, such as capacity building and training. For this reason, some projects included conflict mediation training in their activities to strengthen associations.

Pursuing innovation: Developing technological tools that facilitate legal compliance and market access

Associations provide added value by delivering technologies or equipment to their members. In Thailand, the Thai Hevea Wood Association developed traceability software that enabled its members to generate "quick response" (QR) codes that could be attached to raw and processed rubberwood, allowing them to trace the origin of the wood back to the farm level. In Vietnam, HAWA and the Binh Dinh Wood Association have developed association-level due diligence systems, which will create a unified digital platform for members and supply chain actors to facilitate the submission, storage and review of the evidence needed to conduct due diligence. The HAWA due diligence system creates data linkages along the supply chain, which ensures that operators, including MSMEs, can continue to supply global supply chains by providing the information that their clients need to conduct due diligence. These efforts give their members a competitive advantage over other operators who are not members of associations.

Build networks with associations in other sectors to provide joint services. Because many MSMEs, especially smallholder tree growers or agroforestry cooperative members, only produce timber as a subset of their livelihood portfolio among other agricultural products (coffee, cacao, fruits, nuts, etc.), their overall livelihoods benefit from strengthening the other representative organizations of which they are members. Therefore, strengthening needs to not only focus on forest sector associations but also on non-timber organizations like farmer's unions and agroforestry or community forestry federations, which have a strong focus on producing non-timber forest products (such as charcoal, resins, etc.) and which can provide joint services (i.e. collective purchasing) that make these smaller cooperatives and associations more financially viable. Linkages can be created with programmes in the agricultural and other sectors that also host vibrant ecosystems of associations representing small-scale producers and MSMEs.

Several Programme partners engaged in cross-country learning with other associations, demonstrating a strong appetite for mutual learning. A group of MSMEs from Côte d'Ivoire was able to visit the Forest Industries Association of Ghana and learn lessons that will build their capacity to consolidate an MSME federation. A regional summit organized in Africa in 2018 called for developing a "mentoring network" to enable this association-to-association learning. While this network did not come to fruition, the idea enjoyed significant private sector support among the 58 associations at the summit and remains a potential intervention for future support.

2.1.3. Lessons learned

The creation and strengthening of associations is an effective way to harness the potential of MSMEs to move past traditional business-as-usual modes of operation towards green growth and a more inclusive economy. These three lessons illustrate how this strengthening leads to transformational change.

Strengthening associations yields "multidirectional benefits". In addition to legality compliance and institutional capacity building for long-term sustainability, external technical and financial support can be critical for associations to establish their role in line with these ambitions and develop long-term revenue-generating strategies. This is particularly needed by associations that have been newly created to fill a gap in MSME representation and have demonstrated commitment from members. The remote location of forest resources often makes wood-based MSMEs very hard to reach, where local associations offer enormous added value in connecting these remote enterprises with larger markets and national policy dialogues. These remote MSMEs are also among the most essential to reach, given their direct contribution to avoiding deforestation through adopting legal and sustainable practices.

Joining associations can change an operator's mindset. Multiple projects have seen cases where joining an association reinvented an operator's idea of their self-worth, value and vision for the future. In Liberia, NACUL has helped charcoal producers see themselves as major forest sector actors promoting economic development and sustaining forests. Membership in associations provides a sense of purpose that can "can lift members up" in terms of how they run their businesses and in seeing that a successful business can contribute to poverty alleviation while supporting sustainability, and that participating in legal and sustainable wood production can secure livelihoods and contribute to addressing deforestation. In Colombia, RED FAISAN reports that their members look at their businesses differently after thinking about the whole supply chain. They are no longer content simply delivering orders to distribution centres, and feel more committed to link their businesses to broader issues such as legality and sustainability. This illustrates how joining associations can help MSMEs see the big picture, in that embracing legality or formalization positions their businesses to contribute to the realization of global development goals.

External investment in associations is best provided when it can catalyse new initiatives, such as building networks of associations, providing new services or reaching a new membership base. These key strengthening actions allow associations to provide "multidirectional benefits" in addition to legality compliance and to build institutional capacity for long-term sustainability. External technical and financial support can be critical for associations to establish their role in line with these ambitions and develop long-term revenue-generating strategies. This is particularly needed by associations that have been newly created

to fill a gap in MSME representation and which have demonstrated commitment from members. The remote location of forest resources often makes wood-based MSMEs hard to reach. This is where local associations offer enormous added value in connecting these remote enterprises with larger markets and national policy dialogues. These remote MSMEs are also among the most essential to reach, giving their direct contribution to avoiding deforestation through adopting legal and sustainable forest management practices.

Testimonials

> *Formalizing our cooperatives and being supplied with legal wood will give us more time to devote to our work. Because in illegal sawing, when I send the sawyers in the bush, I have to give up my work in carpentry to follow them because they could sell my wood to other people even though I have paid them. Buying legal timber in the South would give me more time to devote to my work in the workshop.*
>
> – Société Coopérative WOBE des Professionnels du Secteur Bois de Korhogo, Côte d'Ivoire

2.2. BUILD AN "ECOSYSTEM OF SUPPORT": EXPANDING THE ROLES OF CIVIL SOCIETY ORGANIZATIONS AND GOVERNMENT IN AIDING MSMES

> *Before I was terrified when I saw a man in a green outfit [MINFOF agent] even from a distance because I only knew them under the aspects of law enforcement since I was acting illegally, but since ASD came with their support and helped me move towards legality by obtaining my documents from MINFOF, I no longer hide, and even, I have become the friend of the MINFOF agents whom I now call each time in case of a problem. I therefore ask my colleagues who are still illegal to approach ASD to benefit from their free support.*
>
> – Ets Prêt à Partir, Bertoua, Cameroon

The process of supporting MSMEs also has the potential to build capacity for government and CSOs – helping all stakeholders to more effectively play their role in promoting legality. When conducting capacity-building or project activities, it is essential to train not only MSMEs, but also the organizations that will continue to work with them over the long term, such as local business associations, CSOs and local government officials. More importantly, involving non-private sector actors in MSME-support activities can trigger synergistic effects, which enable these actors to better provide the continual support needed by MSMEs and keep on

training and advising MSMEs who become interested in legality or formalization after the lifetime of an intervention.

2.2.1. What is an "ecosystem of support"?

Micro, small and medium-sized enterprises operate within a dynamic environment where they are subjected to shifting market pressures and demands, government regulation and oversight, and public opinion and values regarding the role of the private sector in demonstrating environmental and social responsibility. The other actors within this environment all have the potential to support MSMEs in producing legal timber products that contribute to global visions of livelihood generation, poverty alleviation and environmental sustainability. When all these actors simultaneously deploy their unique roles and strengths to support MSMEs, it can create a mutually reinforcing environment that strengthens the effectiveness of each other's interventions, while providing the long-term and comprehensive assistance that MSMEs need.

As most CSOs have missions related to promoting social justice, environmental protection and equitable economic development, many lack practical knowledge on business management and technical topics such as supply chain control. This lack of knowledge prevents them from fulfilling critical monitoring roles – such as investigating and reporting illegalities. When CSOs are involved in MSME support, they gain technical knowledge that enables them to provide both direct and complementary support to MSMEs – often fulfilling their social and environmental objectives – while also generating field-based evidence that can be used in policy advocacy. In some cases, building this technical knowledge can enable CSOs to develop service provision skills, enabling them to secure support from external actors to help them train or coach MSMEs towards legal compliance and better production.

At the same time, governments are ultimately the actor that issues the permits and licences that enable MSMEs to be legal and operate profitable businesses. This means that compliance is often contingent upon government capacity and involvement. Several partners expressed that they wished they had involved local government offices more closely in project activities from the outset, as this might have catalysed more proactive responses from governments when handling permit applications. This was the case in Cameroon, where ASD, working in two different regions, found that one of the key contributors to success was support and technical understanding from the regional delegation of MINFOF.

This ecosystem can be created when interventions do not target only MSMEs, but also build the capacity of civil society and government actors. Inclusion of these other actors can facilitate information sharing, strengthen networks and build capacity in technical areas that enable government and civil society actors to provide more effective long-term support. This ecosystem of support is also critical for creating an environment of accountability, in which all stakeholders are empowered to monitor and contribute to each other's work, advocating for the action of other stakeholder groups.

2.2.2. Examples of strategies for building an ecosystem of support

This section provides examples where engaging and building the capacity of CSOs and government has enabled the provision of support to MSMEs or created a more enabling environment for them. The strategies are simple: most involve inviting other stakeholder groups to participate and join in MSME-support activities. Most relevant to illustrate are the synergistic effects that result.

Build the technical skills of stakeholders together with MSMEs. In Ghana, government officials were often involved in directly providing ad hoc trainings to MSMEs to build their operational capacities vis-à-vis legality compliance and production efficiency. Said trainings were usually developed and delivered in collaboration with CSOs. Partners in Ghana confirm that these trainings are often an occasion for mutually beneficial learning and represent an invaluable opportunity for MSMEs to voice their concerns and the government to get immediate feedback on policies and regulations affecting MSMEs. This format of joint CSO/government-imparted trainings to MSMEs has been successfully replicated in several instances by different partners, encouraged by the positive feedback from both recipients – who felt the benefit of a direct communication channel with the government – and the providers themselves whose credibility was enhanced by having government officials delivering these trainings.

In Guyana, GFC found that its outreach efforts were more effective when done in collaboration with other government agencies. In reflecting on their past work, they realized that other agencies were engaging the same sets of stakeholders at different times, so in follow-up projects, they conducted a thorough review of all the legality components applicable to each stakeholder group to map out the government entities or agencies that needed to be involved.

> *We have decided to do it as a team. We decided to do everything together. What we found in this approach is that the communities were more receptive because instead of only GFC, we brought all these people and provided the opportunity to ask questions.*

The end result was improved receptivity of the content and improved perceptions of GFC.

Empower stakeholders to fill gaps in support. In countries where one stakeholder group is weak or absent, the "ecosystem of support" is especially crucial for filling gaps. In the Lao People's Democratic Republic, the Rural Research and Development Promoting Knowledge Association (RRDPA) demonstrated that CSOs can conduct fieldwork that would traditionally be the domain of the private sector (see Box 13 for an example of government filling this same gap). As a member of the Lao FLEGT CSO Network, RRDPA was entrusted to carry out a comprehensive assessment on timber harvest and utilization in village use forests (VUFs) in Xayaboury Province. RRDPA then piloted five options for timber supply chain control for timber originating from

VUFs while also introducing the concept of supply chain control in these villages – building community technical knowledge. This demonstrated that CSOs can communicate with difficult-to-reach local communities and help explain government regulations and instructions to local communities in an understandable way.

Leverage the unique roles of each stakeholder. Many MSMEs pursue legality or formality to avoid potential issues with government law enforcement. In Colombia, FEDEMADERAS had greater success convincing its members to pursue legality in light of the coercive control exerted by regional environmental authorities in sanctioning non-legally compliant enterprises. It was noted that the possibility of law enforcement was a more powerful motivator than other interventions; FEDEMADERAS credits this as a critical factor for why its projects were successful, illustrating that the efficacy of actions is increased when stakeholder groups actively play their differentiated roles.

BOX 13

Lao People's Democratic Republic – Building the capacity of government and civil society organizations together with that of MSMEs

In the Lao People's Democratic Republic there are few private sector associations or representative institutions that can provide support to small and medium-sized wood enterprises. For this reason, the government and CSOs are tasked with playing a larger support role than would be seen in other countries. This support is crucial at a moment when Lao MSMEs have been mandated to adopt input-output monitoring systems, which requires careful data collection and monitoring of the volume of wood entering and leaving a processing facility.

In 2018–2021, the Ministry of Industry and Commerce (MOIC) implemented a two-phase project to pilot a training module to help MSMEs adopt input-output monitoring systems. Similar to the lessons described in Sections 1 and 2, these trainings included modules on developing value added products as a strategy to increase interest in the input-output trainings, allowing stakeholders to improve their products and wood engineering skills. They were also followed up by a period of monitoring by the trained government officials who coached and worked with the households to apply the knowledge gained on input-output monitoring.

The project uniquely ensured broad participation from local government and civil society in the trainings:

- By having government organize and participate in these trainings, their own capacity was improved in providing oversight and monitoring the compliance of businesses. This also improved trust between provincial and central government officials.
- By allowing CSOs to join these trainings, their understanding of the timber supply chain was enhanced, and they were better able to participate in multistakeholder dialogues on issues critical to the forest sector, such as the design of the Lao

People's Democratic Republic timber legality assurance system and how to check and control the traceability of legal timber sources.

To date, MOIC has trained over 85 MSMEs and is preparing to roll out a nationwide programme to help all wood processing businesses to adopt input-output monitoring systems.

2.2.3. Lessons learned

The multistakeholder "ecosystem of support" approach creates a more robust environment in which MSMEs can operate and increases the scale and longevity of support interventions. Engaging a plurality of partners, especially non-traditional stakeholders, creates the supportive environment needed for MSMEs to achieve legal compliance and integrate themselves into domestic and international value chains.

Target non-traditional actors. Multiple ministries within governments have roles relevant for engaging MSMEs, and these ministries do not often participate in project interventions due to a disproportionate focus on collaboration with forest sector ministries. Some partners have attributed their success to their partnerships with government institutions outside the forest sector, such as ministries of commerce, finance or economic development. ASMINDO in Indonesia works not just with the Ministry of Trade but also with the Department of Industry, which has some sections focusing on MSMEs. Similarly, in Cameroon, the Fédération Camerounaise des Associations et des Professionnels de la Seconde Transformation du Bois (FECAPROBOIS) collaborates closely with the Ministry of Small and Medium-Sized Enterprises, Social Economy and Handicrafts. This cross-institutional cooperation is critical, considering that MSMEs are present across all sectors beyond forestry. Engaging these other institutions can leverage support that would not be available through only engaging ministries responsible for forestry.

Strengthening the "ecosystem of support" can increase the scale of project actions. Training local stakeholders who will remain in the geographic locality (government officials or other public institutions, CSOs, local wood associations) can multiply the number of MSMEs reached through their ability to provide long-term support and "retraining" when necessary. While many projects have attempted to address the issue of scale through a "training-of-trainers" approach, few have succeeded in developing a sustainable training mechanism as trainers are dependent upon continued funding for financing workshops, travel and honorariums. In contrast, training local institutions that can provide support within the context of their jobs – is more sustainable. In Latin America, partners have called this approach "regionalization of support", referring to the need to work at lower levels of political jurisdiction to ensure that local support is broadly available at the grassroots level.

Testimonial

> *We have to pay attention to bringing input from the local people and what they need and what they want, so that the government can accept that… We have good relationships with local communities so we can work on how to implement the issues discussed. In terms of capacity building, we can turn government regulations and instructions into something that communities can comprehend, and work with them.*
>
> – Rural Research and Development Promoting Knowledge Association, the Lao People's Democratic Republic

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Pillar 3: Create an enabling operating environment

3.1. PURSUE MSME-FRIENDLY LEGAL FRAMEWORKS: BUILDING EXPERTISE TO SEIZE WINDOWS OF OPPORTUNITY

> *I am glad that there is support for the reclaimed timber operators to provide us with a space for sharing our concerns regarding legal compliance for reclaimed timber trading nowadays, and bringing a clearer picture of the process as well as designing a system with which we can actually comply.*
>
> – Reclaimed Timber Association, Thailand

Legal reform and simplification are widely acknowledged as effective ways of helping MSMEs at scale by creating a more enabling environment for operating legally. Policy and legal reform can improve conditions for tens of thousands of MSMEs at once in a single action. Although these gains cannot be achieved in countries with relatively weak capacity for law enforcement, Programme partners still emphasize the importance of having a strong legal framework on paper because it sets the parameters for the enforcement that may one day be possible.

3.1.1. What is the enabling legal environment?

The enabling legal and regulatory environment is critical for incentivizing informal MSMEs to formalize or legally register. A truly enabling environment will take into context the differentiated knowledge and capacity of MSMEs to comply with legal requirements, and will clearly define pathways to legal operation through which MSMEs can benefit from the support services provided by governments and financial institutions.

While any business may be regulated by a wide variety of government agencies and sectoral laws, this section refers to the following main components of the enabling legal and regulatory environment that are most relevant for forest sector MSMEs:

1. **Tenure and ownership:** This includes the regularization and recognition of different property, access, and procedural rights to forest resources.
2. **Registration procedures:** This component refers to the process for registration as a formal enterprise, which may be too costly and complex for MSMEs to navigate.

3. **Access to credit:** Micro, small and medium-sized enterprises may be ineligible for credit if they are not formally registered; the terms of the loan (interest rate, amount, payback period) may also not be favourable to them.
4. **Tax structures:** All businesses earnings are subject to taxes, but countries may offer differentiated tax rates for MSMEs or various types of tax breaks or incentives for small businesses.
5. **Issuance of licences and permits for operations:** The number and type of licences and permits needed for the timber production process (harvesting, transport, processing, imports, exports etc.) may be different for MSMEs.
6. **Legal and social protections:** These offer MSMEs protection against fraud, bankruptcy and other business threats, and can enable MSMEs to access the court system in cases of grievances.
7. **Criteria for compliance with other relevant laws, such as fiscal, labour, social and environmental regulations:** MSMEs are often subjected to the same compliance criteria as large industrial companies, whereas some legal frameworks offer reduced or simplified requirements for smaller operators.

Improving these components is usually done by reducing, simplifying and clarifying the processes and requirements that MSMEs would need to comply with to benefit from each component.

However, MSMEs are often not represented in reform processes related to the above components, with private sector representation dominated by large industrial companies. This is an area of work where practitioners are noticing significant improvement. CIFOR's 2019 VPA Evidence-Gathering study[30] found slight to moderate improvements in the acknowledgement and recognition of SMEs in the political agenda. They are also better able to coordinate and advocate for their policy positions through recognized associations.

3.1.2. Examples of strategies for assisting MSMEs to design more MSME-friendly legal frameworks

Many practitioners and Programme partners have found this area of work particularly challenging, given the slow pace of government policy processes and the difficulty of achieving concrete results within a finite project window of time. Based on 30 Programme-supported projects that sought to improve the legal framework in favour of MSMEs, successes within the five-year phase of the Programme were only possible in cases where there was strong government ownership or when there were "windows of opportunity", making reform politically expedient and an attractive option for the government (i.e. VPAs, post-COVID-19 economic development, change in departmental or ministerial leadership).

However, concrete steps can be taken to prepare MSMEs and stakeholders for taking advantage of these "windows" when they open.

Enabling MSME participation in multistakeholder processes creates space for MSME-friendly legal reform. The laws of many countries are designed to regulate large-scale industry rather than microlevel timber producers and processors. To ensure the legal framework is relevant for MSMEs, multistakeholder, participatory processes can be used when establishing new standards and assurance systems or when enacting regulatory reform. These processes provide "windows" for MSME-friendly legal reform.

One such example is the process of negotiating trade agreements, such as VPAs between a timber-producing country and the European Union. Stakeholders must negotiate and develop a comprehensive definition of the laws and procedures to be followed for timber to be considered "legal". This process results in legality grids, which specify legality verifiers and indicators. The development of these legality grids is a crucial moment for determining the legality of timber produced by MSMEs. Indeed, many partners have used this legality grid development process to propose points of simplification or to identify gaps that need to be addressed to support the legal compliance of MSMEs. For example, in the Democratic Republic of the Congo, the CSO Association de Coopération et Solidarité en République démocratique du Congo facilitated inputs into revising the legality grid that reflected the concerns of MSMEs, such as the need to define a standard framework for agreements signed between artisanal operators and local communities.

In Cameroon, MSMEs have played a crucial role in reviewing the country's legality grids. Between 2018 and 2020, the government, civil society and the private sector thoroughly reviewed the country's legality grids to identify indicators that were obsolete or could be simplified. During this process, GFBC facilitated MSME inputs into the revision of the legality grids in Cameroon, which resulted in the creation of two new grids (*permis d'exploitation du bois d'œuvre* or timber exploitation permits), which would solve the critical issue of providing MSMEs with access to legal timber. In the end, 75 percent of the proposals for the relevant grids for MSMEs were accepted.

While simplifying legality grids, or the removal of verification processes and checks, is a good opportunity for simplifying the compliance burden of MSMEs, it is noted that legality grids ultimately are still based on the prevailing legal framework. In the case of Cameroon, what is still needed is the revision of the 1994 Forest Law, which could create a more conducive legal environment for MSMEs.

Although not all countries host multistakeholder VPA processes, private sector associations are often able to secure spots within technical committees or national-level platforms or round tables to represent MSME interests. Within this capacity, not only do they lobby for policy and legal reform, but they can anticipate and prevent potential damage in instances of counterproductive legal reform.

Piloting proposed participatory legal reform provides the evidence needed for eventual adoption. In the Lao People's Democratic Republic, a government-led project found itself with cost savings after a large flood caused the cancellation of some project activities. The government used this leftover budget to undertake

a validation process to finalize their guidelines on input-output monitoring for wood processing enterprises. They organized two validation workshops, during which MSMEs expressed their concerns about the timeline in which they were expected to comply with this regulation. Consequently, the government agreed to introduce differentiated requirements and give household businesses an additional year to install input-output monitoring systems, along with providing targeted assistance to help smaller enterprises meet their requirements. The broader impact was that the government saw that regulations would be stronger if they passed through piloting and validation processes. One official noted that before, they made declarations based on government policy, but that, now, they see the importance of first testing and allowing CSOs and stakeholders to provide inputs and share ideas before issuing declarations.

For example, in Thailand, the Center for People and Forests (RECOFTC) worked persistently between 2015 and 2021 to address the same issue: getting the government to provide guidelines or legal clarity on the harvesting of smallholder or community plantations on public lands. They eventually achieved success for smallholders operating with certain types of land titles (see Box 14), which only would have been possible through continued support and advocacy, which included hosting policymaker visits to project sites and enabling smallholders to directly provide feedback to the minister of natural resources and environment at project workshops.

BOX 14

Thailand – Creating a pathway to legal timber harvest on public land

The Royal Government of Thailand is working to increase the country's area of economic production forests to meet its commitment of 40 percent forest cover. However, the current legal framework disincentivizes timber harvesting, especially for operators on public land who are considered de facto "illegal" due to unclear laws and regulations, and complicated permission processes. RECOFTC has worked with FAO since 2016 to pilot actions to address the limitations in the current legal framework on public land, including land under Agricultural Land Reform (Sor Por Kor) – a title granted to approximately 10.28 million people across a total of 5.5 million ha.

RECOFTC has taken a practical approach consisting of piloting practical guidance and tools that demonstrate supply chain control for timber sourced from Sor Por Kor land. The pilot was built on the principle of evidence-based advocacy to decision-makers; RECOFTC and members of the Thai CSO FLEGT network represented the concerns of smallholder tree growers by ensuring public land concerns were raised in discussions on the design of the Thai timber legality assurance system.

In 2020, the Royal Government of Thailand granted a pathway to legal commercial timber harvesting for Sor Por Kor land, allowing smallholders to register this land under the revised Plantation Act and self-declare the legality of their timber using

the Thai self-declaration mechanism. RECOFTC's evidence-based piloting played a crucial role in creating confidence that the self-declaration mechanism could be used reliably, and RECOFTC will continue to work with smallholder tree growers on these land types to enable them to follow this pathway to legality so that they can legally benefit from timber.

One local government official concluded:

The participatory approach that RECOFTC has implemented in the pilot site at Santhisuk subdistrict made an impact at the local level... Currently, local people in the pilot site know the steps required for requesting the timber harvesting permission on Sor Por Kor land. I am confident that if the pilot site is successful, it will be a model for other communities who want to harvest timber from the same type of land.

Generating experience among MSMEs and partners builds the leadership skills and knowledge needed to provide inputs into participatory legal reform processes when the opportunity arises. Legal reform projects may not come at the right "political moment" for action. At the same time, other MSME-support projects may find themselves in a position to influence policy when "windows of opportunity" arise.

The story in the Lao People's Democratic Republic continues with a parallel effort by RRDPA. Following a 2019 revision of the Forest Law, which created the potential for VUF timber to be harvested for commercial purposes, RRDPA developed and piloted a supply chain mechanism for ensuring legality and traceability of timber harvested and commercialized by VUFs. This provided RRDPA with the expertise to develop proposed recommendations to advise on the eventual revision of Village Forest Management Regulation No. 0535. Although this regulation has not yet been revised, the project demonstrated the potential of CSOs in the Lao People's Democratic Republic to take on technical issues and test options on the ground to develop concrete policy recommendations, which has improved the standing of CSOs as government partners.

The added benefit of generating experience among MSMEs and partners is fostering the emergence of strong coalitions, which carry more clout in advocating for reform. In Colombia, the Intersectoral Pact for Legal Timber comprises of over 70 public and private sector organizations that have worked towards the revision of norms related to forest issues in accordance with a sectoral growth pact, such as tax reduction for companies working in reforestation. A similar coalition emerged in Indonesia between private sector associations representing MSMEs and CSOs conducting independent forest monitoring (see Box 15 below).

BOX 15

Indonesia – Staying the course with the SVLK

The experience and stature of Programme partners in Indonesia not only helped pursue MSME-friendly legal reform, but it also helped halt potentially unfriendly regulatory rollbacks. In early 2020, the Indonesian Ministry of Trade issued a regulation that would have exempted wood product exports from the need to have V-Legal certificates. Given that many MSMEs originally sought legal compliance so that they could access lucrative export markets, this rollback would have undermined their work and created an uneven playing field by allowing uncertified exporters to access these markets. A poll conducted by Gadjah Mada University showed that nearly half of 137 timber businesses surveyed felt that this rollback would have harmed their business.[35]

Local partners – including ASMINDO and the Indonesian Independent Forest Monitoring Network – actively worked together with the Ministry of Environment and Forestry (MOEF) to advocate for the cancellation of this regulation, which was officially rolled back on 11 May 2020. A positive outcome was increased recognition of the need to revise and simplify various aspects of the SVLK regulation to make compliance easier and less costly for MSMEs. This revision process was completed in late 2020 and now includes key changes favouring MSMEs, such as an agreement for the government to subsidize surveillance audits and V-Legal fees, allow remote audits and extend periods between surveillance audits.

This was partially made possible through years of stakeholder experience in implementing the SVLK and assessing aspects that needed improvement. Although the Programme cannot take credit for the SVLK's revision, the experience illustrates the importance of supporting legal reform – not only to improve the enabling environment but also to mitigate or prevent potentially negative impacts of regulatory reform.

3.1.3. Lessons learned

Legal reform interventions generally require long-term effort to be successful. Programme-supported projects have often seen results only after several years of persistent advocacy and cooperation with the government. This is because government policy processes move at much slower paces than donor-funded project cycles, but it does not mean that these efforts do not eventually bear fruit.

When national laws cannot be changed, it is possible to pursue reform of regulations and norms at local, decentralized levels. Local levels can be more accessible because it is easier to work with local actors and their schedules, and achieve results in a shorter term. This approach paid off in Honduras, where CH-CFV developed preferential sustainable procurement policies at the municipal level, leading to the signing of two agreements between municipalities

and local producers. Similar results have been reported in Africa. Tropenbos International reports that in the Democratic Republic of the Congo, in Tshopo Province, the provincial government reduced the tax payment obligations for forest sector operators from annually to once every five years, reducing their financial obligations from USD 600 annually to USD 600 every five years. This may be a key factor in explaining why an increasing number of artisanal loggers formalized following the decision.

When legal reform is not possible, an effective alternative is to improve or simplify the procedures and mechanisms that enable compliance. Given the difficulty of enacting legal reform, one alternative, "low hanging-fruit" intervention is to improve the mechanisms for legal compliance, such as by streamlining permitting procedures, simplifying materials for registration or permit and licence application, and creating online application processes.

Project-supported initiatives have sought to develop similar tools that improve the compliance process. For example, in Cameroon, ASD developed an online tool for small timber operators to easily upload and share documents, which reduced their overall administrative burden in demonstrating legal compliance. In Ghana, KWC developed a mobile application for the domestic market, which documents the delivery of timber products, sales made and timber product stock balances. This information is fed into the domestic wood tracking system and is used to record waybills linked to legal timber sales, enabling the government to digitally link the sale with other legal permits issued to the same vendor. With the app, private sector actors can easily provide the government with information needed to trace the trade of legal wood along the domestic supply chain. Businesses perceiving the benefit and business value of the application have increasingly registered with government authorities to gain access, a key legality requirement in the forest sector.

Persistence is needed in crucial but difficult to change areas, such as tax reform, access to credit and the definition of harsher penalties for non-compliance or illegality. Tax reform would remove a number of challenges, including reluctance to formalize, create incentives for industries to sell to MSMEs and encourage preference for imported timber. However, governments largely remain unwilling to reduce taxes for MSMEs and deprive themselves of revenues. In Honduras, the forest owners want fewer forest taxes at the community, municipal and national levels. In Guyana, SMEs have requested waivers from previous years on the payment of taxes and royalties. In most African countries, there is a recognized need for tax incentives for the purchase of legal timber in the domestic market, as lowering taxes for the supply of legal timber to this market could reduce the cost of production. However, tax reform is something that the Programme's time-limited small grants have been struggling to influence, as this type of reform requires longer and more persistent support, as well as political engagement. It also requires coordination with government ministries beyond the forest sector

on a potentially sensitive topic that governments may not wish to address for fear of reducing potential tax revenues.

Testimonial

> [*This project] has carried out professional work, making an in-depth analysis of the paperwork of certain processes in the Instituto Nacional de Conservación, Desarrollo Forestal, Áreas Protegidas y Vida Silvestre and proposing a simplification strategy according to the requirements of promoting the legal trade of wood, which would generate greater agility and dynamics in the productivity of the forest sector of our country.*
>
> – Rainforest Alliance, Honduras

3.2. CREATE AND EDUCATE MARKETS: ENACTING MEASURES TO INCREASE DOMESTIC DEMAND FOR LEGAL TIMBER PRODUCTS

> *We have always felt committed to protecting natural resources and the environment, but now we realize that we can do more, buying certified products such as the bond paper that we use daily in the municipality and making use of wood that complies with all the rules of legality.*
>
> – Arizona Municipality, Honduras

Access to markets is the "carrot" that motivates MSMEs to formalize, legalize, innovate and produce higher-quality products. Demand- and supply-side measures are mutually reinforcing in promoting timber legality. Supply is unlikely to rise if the demand is not in place, and conversely, legal timber will continue to be mainly exported if there is no domestic market.[31] Therefore, measures targeting both sides must be pursued in parallel to ensure that benefits are delivered as soon as possible.[32] Based on the experience of the initiatives analysed in this paper, domestic market measures can also be considered to be the "cement" that secures in place the impacts of other transformation strategies because market access motivates MSMEs to continue good practices they have adopted.

Domestic market measures are critical because they provide economic safety nets in the face of fluctuating and unpredictable international markets. During the COVID-19 pandemic, international shipping costs skyrocketed, and many operators were forced to reinvent their products to attract sales within their own countries. For this reason, in countries like Cameroon, public authorities and government officials have been collaborating with local stakeholders to draft incentives and solutions to expand the domestic timber market. It has therefore become ever more important to establish resilient domestic markets in line with sustainable development objectives.

3.2.1. What are domestic market measures?

There is a wide menu of measures that can be taken to incentivize the consumption of domestically produced legal products. This can include capacity building for improved timber transformation skills, such as improving the quality of locally made products can improve their competitiveness relative to imported products. The Programme has largely focused its efforts on enacting public procurement and responsible purchasing policies and conducting awareness-raising campaigns for the consumption of legally sourced forest products. Both are described in Section 3.2.2. below.

Enactment of these measures can create markets for formalized MSMEs by disincentivizing the purchase of imported timber products and creating demand for legal products on the domestic market – a critical step given that the vast majority of MSMEs supply timber to the domestic market.

3.2.2. Examples of strategies for increasing domestic market demand for legal MSME products

Public procurement and responsible purchasing policies: Public procurement policies and preferential purchasing policies are critical to sustainable forest management. They can provide long-term economic opportunities to locals by promoting legal timber trade on domestic markets. They can open potentially lucrative markets to MSMEs by creating niches for responsibly produced products. For example, the Government of Ghana is the biggest consumer of timber, accounting for between 55 and 60 percent of the timber consumed on the domestic market. They are an important part of creating an enabling environment because they create a market for legal timber while also building the "brand" of legal timber (i.e. legal timber is prestigious while illegal timber is stigmatized).

While many existing public procurement policies are geared towards reducing corruption and increasing transparency, those that explicitly target the forest sector also have the potential to include provisions incentivizing purchase from MSMEs. Below are a few examples of progress towards adopting these policies from Cameroon, Colombia and Indonesia:

- In Cameroon, only 27 percent of the timber circulating in the country's major urban markets in 2016 was found to be legal, while the government consumes an estimated 13 000 m^3 of timber per year for the renovation of public infrastructure alone. The Ministries of Forestry and Fauna, Public Works and Public Procurement issued a public procurement policy in December 2020, which requires the use of legally sourced timber in public tenders.[33] By establishing legality criteria for timber used in public works, the decree incentivizes the production and trade of legal timber in the country and can lead to decreasing deforestation, contributing to the creation of regulated, fairly renumerated employment and generating valuable tax income.

- In Colombia, a study showed that between 2017 and 2018, at least 243 processes of public procurement of wood, timber products and related services were carried out through Colombia Compra Eficiente SECOP II (Sistema Electrónico para la Contratación Pública), mobilizing around USD 1.2 million in 2017 and about USD 3.2 million in 2018. It was found that more than 78 percent of the volume of wood and timber products in 2017 and 99 percent in 2018 were used for the construction of new buildings, restoration and refurbishment. Around 47 percent of resources mobilized for public procurement in 2017 and 40 percent in 2018 were awarded to micro, small and medium businesses, natural persons and consortia – mostly sourcing wood from plantations. However, only 8 percent of the procurement processes analysed requested certificates of legal wood provenance as part of the technical documentation provided with the offer. This illustrates that public procurement policies can serve as a market for MSMEs, but that further work is needed to institutionalize requirements for proof of legal origin within procurement tenders.
- In Indonesia, the MOEF has included the SVLK under their green procurement scheme, and developed a procurement database that includes SVLK-certified SMEs eligible for prioritization in the procurement process of goods and services. While the SVLK-certified products included in the database are currently limited to paper and furniture, the database allows the registration of new partners, which could be used to link it with the Woodenasia and Kayutopia e-commerce platforms.

Experience from these countries demonstrates that the design of public procurement policies and responsible purchasing policies is best underpinned by:

- feasibility studies or assessments to ensure that the domestic responsibly produced timber supply is sufficient for the policy to be implementable;
- the involvement of both public and private entities, especially through collaboration and dialogue with local producers or MSMEs, who can validate or provide inputs into the scope and design of the policies; and
- the sharing of experiences with other countries or actors that have adopted similar policies.

Recognizing that it is not only governments that have a responsibility towards green procurement, some efforts focus on the producer side in building "brands" of responsibly produced timber. In Peru, Fundación Amazonia Viva developed a brand for timber sourced from smallholder agroforestry producers, known as "Madera+: wood from sustainable areas". The brand is designed to position agroforestry producers to be able to take advantage of niche markets and attract additional investment, while also linking itself with the Regional Government of San Martin's own procurement guidelines and branding scheme for products produced within the region. The Madera+ brand has attracted the interest of

BOX 16

Cameroon – Formalization case study

In Cameroon, a new decree that makes it compulsory for all timber purchased through public tenders to be legal, will open up opportunities for MSMEs that have already formalized. One operator, Ada, successfully secured a public contract to supply legal wood as part of an infrastructure project for the dispatch of blue helmets to the Central African Republic after she formalized her business through support from ASD, a Cameroonian CSO. ASD implemented a two-phase project to support the legal compliance of small-scale operators in the southern and eastern regions of Cameroon.

Ada reports that she did not want to join the first phase of ASD's efforts, and she only got involved during the second phase after seeing the results obtained by other operators. She was motivated to formalize by the possibility of avoiding harassment from government officials for not having legal paperwork, and says that being legal has made a real difference and radically changed the way she works: "Without ASD, it would never have been possible to become formal or legal. Today even if ASD ceases its support, I will continue to work formally and legally because it brings business opportunities and access to new, more profitable markets."

Ada's accomplishments are all the more impressive considering ASD's observation that women faced more challenges than men when formalizing. While there is no particular institutional discrimination against them, it seems that women are less used to negotiating with government officials and less comfortable "in combat". They also have less availability to undergo bureaucratic application procedures that may require spending significant amounts of time waiting in government offices, as they are responsible for the household, along with financial burdens including children and medical insurance.

some companies, including larger wood pallet traders. Perhaps more importantly, developing the brand has enhanced the motivation of cooperating agroforestry producers to participate in legal and sustainable timber production, and increased their visibility – positioning them for future partnerships with other organizations that can support commercialization.

However, public or responsible procurement policies will not work if there is no legal timber supply on the domestic market. For this reason, several timber-producing countries have put in place specific measures to generate this supply, often in conjunction with obligations specified under VPAs. In 2009 in Ghana, TIDD carried out a market survey to determine the consumption and demand volumes on the domestic market and found that 630 000 m^3 of timber were used annually on the domestic market, of which over 80 percent was illegal timber. The government acknowledged the need to introduce some innovations or initiatives

to increase legal timber supply, which led to the adoption of the DoTTNet Process (described earlier in Section 1.3). This process includes a number of measures, including:

- **Unremoved Yield Portal:** this electronic platform allows timber utilization contract (TUC) holders and artisanal millers to locate potential sources of legal timber, usually unremoved yield from concessions that are of reduced export value and therefore less profitable for industrial companies to harvest.
- **Legal arrangements (memoranda of understanding or MOU):** these formal arrangements for supplying raw materials for processing and onward distribution to the domestic market are meant to ensure full integration of the domestic legal timber supply chain, from production to distribution.
- **20 MOU were signed between TUC holders with rights to harvest timber and the Domestic Lumber Millers Association Ghana:** this provided domestic lumber millers with legal sources of timber, and a domestic timber sales contract template was developed to formalize the arrangement.
- **Establishment of a legal wood depot:** these depots were found to be a cost-effective mechanism based on a public–private partnership approach to ensure sufficient supply of legal timber on the domestic market and establish supporting processes related to the approval of the Ghanaian Public Procurement Policy on Timber and Timber Products.

Legality awareness-raising campaigns: There are two challenges when it comes to demand for legal MSME products: lack of consumer awareness about the importance of purchasing verified legal timber products and a general stigma attached to the use of wood. Many countries report negative public perceptions regarding timber, conditioned by decades of awareness raising on the perils of deforestation. This stigmatizes forest production and holds it to a standard not applied to other sectors, with one local partner observing, "They say 'look at the truck full of wood, they took it out of the forest', but they never say that when they see a truck full of cattle." Awareness-raising campaigns are necessary to remove this stigma and articulate the benefits of sustainable wood as a locally sourced building material with a low carbon footprint, which helps conserve forests as a competitive land use. These campaigns are also effective in shifting consumer habits: a CIFOR study analysing the **results of a 2018 media campaign** in Cameroon found that the campaign had a significant positive effect on the declared intention to purchase legally sourced timber. Such campaigns can work on one or both of these aspects, but critically, boosting demand for verified legal products also "rewards" those MSMEs who have formalized their businesses.

These campaigns are most effective when they target both operators and the general public. In Guatemala, INAB worked together with the Asociación para el rescate y la conservación (ARCAS) to implement the campaign, Todos a la Legalidad! (Everyone to Legality). While the campaign was envisioned as a way of targeting operators and encouraging their registration in INAB's National Forest Registry, it also targeted the general public. With the key message, "Maintain the

balance", the campaign used social media, radio and TV broadcasts to emphasize that purchasing and selling legal timber products contributes to avoiding the destruction of Guatemalan forests. The campaign both increased the number of companies registering with INAB's National Forest Registry and reached 780 000 people on social media. INAB reflects that this campaign was effective because it was supportive rather than punitive. By inviting operators and the public to partake in a shared vision, the messages are better received and result in more interactions with the campaign's target audiences.

Consequently, some countries recognize differences in purchasing patterns between generations to target younger generations more receptive to responsible purchasing and sustainability ideas (see Box 17).

BOX 17

Viet Nam – Taking legality to the general public

Since 2016, the Center for Education and Development (CED) has been refining messages for communicating with the private sector on the importance of legality, responsible business practices, environmental protection and social responsibility. It is important to educate the domestic market given that the country's craft villages supply up to 80 percent of wood products and nearly 100 percent of non-timber forest products processed for the domestic market.[36] This is done with the hope that Vietnamese businesses act more responsibly with regard to environmental and social issues in the future and will offer their input and support for building a green economy in Viet Nam.

In 2021, CED took these messages to the general public via a media campaign to emphasize that using timber is not destroying the environment, and that its use can contribute to sustainability when the timber is legally and sustainably sourced. This media campaign promoted the use of legally sourced plantation wood in construction and furniture, and was underpinned by a nationwide survey which found that although buyers were aware of the overall impacts of illegal logging and associated trade, a mere 3.5 percent considered legality aspects when purchasing timber products, reporting quality and price as key deciding factors. Crucially, 92 percent of respondents reported being willing to pay a premium to ensure that timber is legally sourced.

Using the survey results, CED developed a Guide for Using Legal and Sustainable Wood to guide consumers towards purchasing and using legal and sustainable timber, and explain how local plantation species may be used in design and construction projects. By following the information in the guide, consumers are able to make a valuable contribution to reducing the local demand for illegally sourced tropical hardwoods, while also encouraging businesses to become interested in sustainability and protect the environment.

For more information: Vietnamese NGO works with youth to promote a culture of legal timber

The two strategies cited above – public procurement policies and awareness-raising campaigns – can be executed in parallel. In Cameroon, CIFOR and MINFOF jointly operated the campaign "*Le bois légal, c'est génial*" which was designed to bolster demand for legal timber products while enabling the government to implement its newly enacted public procurement policy. A survey conducted in conjunction with the campaign generated useful data about purchasing patterns and supply: it found that 67 percent of respondents had difficulties obtaining legal timber, but 78 percent would buy legal timber if they could find it easily.

1.2.3. Lessons learned

Establishing domestic market measures is a growing area of work, with increased recognition that efforts to create demand for legal timber products must accompany other MSME-support work. As one partner in Colombia noted, "It turns out that we have been working for decades to build supply, to improve supply, to improve seeds, to improve quality, furniture, furniture quality, but we have never worked on building demand." This has changed as more partners incorporate demand-building activities into their work, such as implementing public procurement policies, responsible purchasing policies and awareness-raising campaigns designed to shift public perception towards the consumption of verified legal and sustainable products. Two key lessons are offered to ensure these measures succeed.

Monitoring efforts are needed to measure the success and impact of domestic market measures. In Latin America, it has been noted that there is a need to guarantee that existing guidelines, guides or protocols for responsible purchasing of wood – and those that are to be developed – are effectively considered at the bureaucratic level and in procedures in the public sector, in other words, ensure that the policies are actually implemented. The creation of monitoring mechanisms would ensure this while also providing valuable data on the amount and value of timber purchased under such policies, or on the types of materials purchased in cases where governments opt to purchase alternative construction materials rather than wood. This data would provide real-time statistics for decision-making. This uptake of monitoring is equally applicable to awareness-raising campaigns, for which monitoring has been made much easier with the advent of built-in analytical tools in social-media platforms, which allow tracking of the number and demographics of viewers. These monitoring mechanisms would need to include surveys and interviews with the government and private sector to identify potential issues while also determining whether the policies and campaigns have their intended effect.

Awareness-raising campaigns represent an opportunity for youth involvement. In Viet Nam, CED's campaign engaged a youth leader network to help disseminate campaign messages to consumers in younger age groups who represent future

purchasing and consumption patterns. CED also uniquely held a legal timber design competition to engage with young architects, who can guide customers to use legal and sustainable timber through their designs. Their strategy illustrates that engagement with young people is a critical strategy for shifting consumption patterns in the domestic market and that working with young social-media users is also an effective channel for increasing a campaign's reach.

Testimonial

> *The project benefited the entire market. People are more aware of the importance of legal logging for the environment, the economy, companies, everyone... We benefited from the project because we received a certification, and many construction companies and public entities don't buy wood that does not have a certification. So we have an economic benefit. We are also more organized and have a more stable, organized inventory.*
>
> – Madera San Joaquin, Colombia

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The future of MSME support

> *The name of the game is "legality" but it has to occur in an enabling context promoting sustainable forest management and considering the competitiveness of forest companies in order to achieve forest-based development.*
>
> – FEDEMADERAS, Colombia

While the previous sections looked at the strategies that have been successfully adopted to achieve transformational change, this section looks at the "future" of MSME-support work and strategies that need to be adopted to reach MSMEs at scale in order for them to participate in ever-changing economic conditions. It draws from solutions that were emerging towards the Programme's closure, as well as those which failed to find "champions" during the Programme's implementation, but which are recognized as being potentially effective forms of support.

Conduct capacity building and commerce in the virtual sphere. The COVID-19 pandemic spurred the embrace of video-conferencing platforms, leading to the rollout of remote training and increasing the number of enterprises trained at a lesser cost. In Latin America, a virtual training programme for MSMEs was tested in Peru and Colombia. The virtual training programme followed the "Massive Open Online Course" format and were open-access courses available for anyone to enrol. They created modules on topics such as improved administration, production management, business management, responsible purchasing and gender equity. The pilot trainings in Colombia and Peru reached over 370 enterprises, generating several lessons on how to operate virtual training programmes:

- All modules need to be thoroughly tested before deployment, together with project beneficiaries, to ensure that the training process and options are easy, flexible and accessible. Colombia was able to share lessons learned before the piloting in Peru, allowing for the adoption of best practices.
- Hybrid models of self-teaching and live sessions offer both flexibility and accountability. In Colombia, a no-cost self-tutorial was developed, which ensures that MSMEs can access training materials at any time. In Peru, having resource persons at the live sessions was found to offer the technical support that participants needed to complete the course.
- Live training needs to be offered at timings suitable for business owners. In Colombia, virtual pilot training was split into 15 sessions of 90 minutes, with choices of early morning or evening sessions, allowing the trainees to continue running their businesses.

- To maintain participant engagement and facilitate self-learning, material needs to be delivered via interactive resources and the gamification of activities. This was possible in Peru due to the Instituto Technológico de la Producción's REDcite platform and their previous experience delivering virtual capacity building.
- Production of additional short review videos can ensure message and information retention after the course. In Colombia, accompanying YouTube videos were produced on legal aspects, production management, responsible purchasing and gender equity. Hard copies of the material can be sent to participants with limited internet connectivity.

Institutionalize MSME support in government programmes to incentivize legality. Governments are often the only actor with the resources and national networks to roll out large-scale MSME support. Partners recognize the need to move beyond project-based support and institutionalize MSME support in government workplans and annual budget allocation requests, ensuring that governments have the staff and resources to provide the incentives that encourage MSMEs to formalize and operate legally. At the same time, interventions need to engage all ministries within governments that support MSMEs. Some partners have attributed their success to their partnerships with government institutions outside the forest sector, such as ministries of commerce, finance or economic development. This is critical, considering that MSMEs are found across all sectors beyond forestry. Engaging these other institutions can leverage support that would not be available through only engaging ministries responsible for forestry.

Pursue jurisdiction-level legal compliance certification. In Indonesia, partners began testing more innovative solutions to support MSMEs at scale, such as by certifying the legal compliance of MSMEs at the forest management unit or district level. Under such jurisdictional schemes, all MSMEs within a given district would be certified as "legal" without requiring individual operators to pursue formal certification of legal compliance. Such a mechanism would award a strong mandate to local government to provide the oversight and budget for ensuring on-the-ground compliance.

With support from Yayasan Inobu and collaboration with a timber plantation and processing company, a certification entity for district-level SVLK certification known as Koperasi Rimba Tiga Lestari was established in Kotawaringin Barat District and legalized through a Ministry of Law and Human Rights decree. The district-level certification consists of six farmer groups with 178 members. Standard operating procedures were also developed to support the newly established cooperatives to grow and become independent so that they could achieve their targeted outcome, including timber certification and potential business development. Yayasan Inobu and the timber plantation company continue to provide support, capacity building and technical assistance to the cooperatives for them to achieve certification. The process illustrated that jurisdiction-level certification is possible, but multistakeholder involvement is pivotal for the trust building needed to pursue this innovative approach.

Enact risk-based policy reform. Few countries have pursued options for developing differentiated compliance criteria within existing laws or regulations, which could subject MSMEs to reduced requirements. One positive example is the Lao People's Democratic Republic, where small and medium-sized household wood enterprises are given a longer time frame to implement input-output monitoring systems than large companies. In Ghana, the Forest Services Division of the Forestry Commission recognizes the need for the Ghana Plantation Timber Harvesting Guidelines to outline differentiated roles for large-scale and small-to-medium developers, which consider their different capacities. However, it has been difficult to institutionalize widespread sets of differentiated criteria, as governments lack the time and resources to undertake the consultations and analysis needed to develop these differentiated criteria.

BOX 18

Risk-based verification mechanisms in timber legality assurance systems

In Asia, risk-based verification mechanisms have been introduced into the TLASs of Indonesia, Thailand, and Viet Nam. The premise of these mechanisms is that the same level of legality compliance and scrutiny is unnecessary for timber sources deemed as "low risk" and that simplified or reduced legality verification procedures can therefore be adopted for MSMEs in low-risk categories.

In Indonesia, the supplier's declaration of conformity (SDoC or DPK) allows SMEs using low-risk sources of timber to comply with a simpler set of SVLK requirements. The key to making the SDoC work is for third parties to conduct random checks to counteract and deter misuse of the SDoC.

- Forestry Regulation No. P.43/2014 allows small-scale forestry enterprises to use a SDoC document. This is for timber from privately-owned land, timber from regeneration (in specific areas), recycled timber and imported timber.
- Timber products covered by SDoCs can only be exported through certified operators with V-Legal documents or SVLK licences.
- Further refinement of the SDoC is recommended to ensure accountability for its use.

In Thailand, the self-declaration mechanism under discussion in the VPA process would allow tree growers to "self-declare" the legality of their timber without undergoing intensive or costly verification processes from the Royal Forest Department. The VPA process promoted an amendment to Section 18 of the Forest Act to enshrine the self-declaration mechanism in law. However, the implementing regulations of Section 18 are still under development, and the scope of the self-declaration mechanism is still under discussion. Stakeholders continue to discuss what type of smallholders growing which species on which types of land would be eligible, and if any witnesses would be necessary.

Enable intra- and interregional learning. Ultimately, widespread support at scale can only be achieved by creating a global practitioner community such as the 77 organizations that implemented the initiatives presented in this paper. This type of practitioner community is critical given that forestry is a cross-cutting sector involving communities, municipalities, businesspeople, parliamentarians, NGOs, environmentalists, academics and other stakeholders. These partner organizations have improved their capacity to implement MSME-support projects, build on established relationships with government and MSME beneficiaries and learn from previous lessons, allowing them to craft and pilot more sophisticated and strategic solutions. In all regions, these organizations are using their experience to propose solutions to common challenges by developing new applications, software, databases and online platforms to meet MSME needs.

Conclusion

Illegal logging takes a heavy toll on the development potential of countries. Deforestation and forest degradation compound the effects of climate change, encroach on human and wildlife habitats and create a loss of revenue throughout the value chain. Recently released figures by FAO show that around 1.6 billion people – roughly one-third of humanity – depend on forests for their livelihoods.[34] Without legal protection of these vital resources, increased depletion of resources will hinder recovery from the economic damage wrought by the COVID-19 pandemic and other potential future economic shocks.

Building markets and trade in legal and sustainable wood products is recognized as a pathway to promoting greener and more inclusive economies internationally, regionally and domestically, the need for which has been highlighted by the current confluence of the climate, biodiversity and health crises. This requires supply- and demand-side measures reflecting the shared responsibility of producers and consumers.

While some may argue that legality compliance is only one of many pressing challenges facing MSMEs, it is crucial to recognize that maintaining a focus on legality is also a building block for sustainability. Systemic legal and policy reforms level the playing field for MSMEs, bolstering their competitiveness, securing, or improving, their access to markets, and securing livelihoods. Furthermore, improved forest governance generates long-lasting changes which extend far beyond legality and bring social, environmental and economic gains in tropical timber-producing countries. The processes associated with promoting legality also promote multistakeholder involvement and increase transparency and dialogue around policy reform that provides a solid foundation for addressing other drivers of deforestation – ensuring that both livelihoods and resources are preserved.

The core objective of this work was to identify strategies for delivering future support to MSMEs effectively and at scale, focusing on legality as a prerequisite that unlocks the ability to address other challenges facing MSMEs. Given the high number of MSMEs globally – and the sheer amount of support needed – the public sector, private sector and international donor community must continue to mobilize financial and technical support to address key, catalytic areas that promote equitable and just solutions for MSME timber production and for their increased ability to operate formally, as envisaged in the European Union's 2003 FLEGT Action Plan.

Long and substantial MSME-support programmes are needed that should be developed around three pillars: targeted support to MSMEs (Pillar 1), strengthening of support structures (Pillar 2) and creation of an enabling environment (Pillar 3). These pillars are complementary and mutually supporting.

The Programme identified best practices and ways to improve the effectiveness of the strategies within each pillar, many of which are already well known to practitioners, and which will trigger new transformational changes and virtuous cycles whose positive effects will grow over time.

- **Long-term mentoring and coaching is the most effective approach to capacity building:** Capacity-building and training events do not result in legal compliance without follow-up. Not only does it take a long time to change business practices, but the needs of each business are different. Long-term coaching provides the follow-up and individualized attention needed for businesses to achieve legal compliance.
- **Trainings are more attractive when they package business skills development and improved production techniques together with capacity building on legal compliance:** Micro, small and medium-sized enterprises often cannot spare personnel to attend training unless they are sure it will offer concrete economic benefits. For this reason, training must be offered in packages that improve business skills, such as enterprise management for small companies, competitive pricing and development of value added products.
- **An "ecosystem of support" can be built through involving CSOs, government and other actors in MSME support:** When other stakeholders are invited to participate in MSME-support activities, it builds their capacity and understanding of the challenges facing MSMEs. This can create a mutually reinforcing environment in which each actor simultaneously deploys their unique roles and strengths in supporting MSMEs, providing the long-term and comprehensive assistance that MSMEs need by involving actors that will remain in the locality beyond a project's time frame.
- **Creating tailored tools can help MSMEs achieve legal compliance and access markets when legal reform is not possible:** Micro, small and medium-sized enterprises may not be able to wait for legal frameworks to be revised to simplify or reduce barriers to legal compliance. Specialized tools, such as specialized guidebooks, software, electronic platforms, or legality verification and supply chain control mechanisms, can be developed in the interim to support compliance. Such tools are effective because they can be custom designed to local contexts and challenges, developed and implemented during a short project, and are simple to use or understand.
- **Enabling lead associations to provide more services to members can trigger virtuous cycles of strengthening:** The act of strengthening associations yields "multidirectional benefits", meaning that strengthening an association in one area can generate a multitude of benefits such as increased membership, network building, greater credibility and better representation. Stronger associations can bring more benefits and services to their members. This attracts more members and funding, further consolidating the association so the cycle of benefits and strengthening can continue. It also has a "pull effect" on local associations, providing examples that local associations can aspire to and emulate in providing more services to members.

- **"Vacuums of representation" can be filled by organizing MSMEs into new associations, cooperatives or federations so that they can gain bargaining power:** Formally grouping together provides legal legitimacy and strength in numbers so that MSMEs can make collective purchases and sales, and magnify their voices in advocating for their interests in national-level policy discussions. Those who have formed associations often later chose to register separately as cooperatives – which have a business mandate – or group with other associations to form a federation, which often operates at a higher level of political influence. The act of joining an association **can also change an operator's mindset by reinforcing** their self-worth, as part of a greater whole capable of greater actions.

In addition to these successful strategies, the following areas are recommended for improving the effectiveness of future MSME-support work.

- **Design and pilot improved evaluation mechanisms to monitor the impact of training and mentoring initiatives:** Organizations leading capacity-building initiatives need effective pre- and post-training assessments, together with plans for long-term follow-up and monitoring of training results.
- **Build technical skills to improve production efficiency and reduce wastage:** Focusing on added value and improved efficiency will reduce the volume of timber needed for production while increasing the revenue earned per cubic metre.
- **Continue to test and research lesser-used wood species:** Alternative species are suitable for MSMEs to use as they are often cheaper to purchase, offer good quality and are not in demand from industrial companies. Research on their properties would help MSMEs use these species.
- **Foster business-to-business learning and dialogue:** Capacitating MSMEs to train other MSMEs has proven to effectively promote legal compliance while facilitating site visits between MSMEs and other companies generates mutual learning and the building of relationships.
- **Update and roll out association training programmes:** Association training frameworks and curricula, such as that developed by GTF, can be updated and expanded upon to enable associations to provide more benefits to their members. This can also be pursued through fostering learning opportunities with programmes working in the agricultural and other sectors that host vibrant ecosystems of associations representing small-scale producers and MSMEs.
- **Institutionalize support for MSMEs in government programmes:** Conduct capacity building for local government officers and advocate for the inclusion of MSME support into government workplans and annual budget allocations, at national and local levels.
- **Continue developing electronic systems to "bring the administration closer to the citizen":** Work with governments to digitize processes related to business registration, permit applications and obtaining documents necessary

to prove legal compliance. Not only does this reduce the need for MSMEs to travel to capital cities, but the transparency and efficiency of these systems address concerns about long processing times and avoiding "informal" payments, while improving government data on forest sector enterprises.

- **Pursue legal reform based on risk-based or differentiated criteria for MSMEs:** When significant legal reform is neither possible nor desirable, alternative requirements for MSMEs can be defined based on risk levels or size of the enterprise, which would be simpler and cheaper, and propose different timelines or paperwork requirements for compliance.
- **Facilitate and capacitate more MSME representation:** MSME capacities can be built for representation, to enable them to better represent their interests. This can enable them to advocate for policy reform or articulate the challenges they face directly to decision-makers.

The design of these programmes should also create an "ecosystem of support" by allowing civil society, government and other actors to provide an enabling environment that goes beyond policy to develop MSME-friendly markets, law enforcement and information sharing, and continuing the critical work of identifying and testing new solutions to emerging challenges.

The creation of this "ecosystem of support" is perhaps the most transformational change described in this paper, as the organizations implementing these initiatives have found that building the capacity and credibility of multiple partners has allowed them to cultivate their relationships with MSMEs, expand their technical knowledge and pursue increasingly sophisticated and innovative projects that capitalize on previous experience. Fostering this "ecosystem of support" not only puts in place the long-term support structures that MSMEs need to thrive, but it creates a community of capable stakeholders able to continue the critical work of identifying and testing new solutions to emerging challenges.

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FAO FORESTRY PAPER

Enabling micro, small and medium-sized enterprises to participate in legal timber production and trade

on transformational changes generated by the FAO-EU Forest Law Enforcement and Trade Programme

Micro, small and medium-sized enterprises (MSMEs) play a critical role in meeting the growing demand for forest products worldwide, with potential to contribute to responsible supply chains that combat illegal logging while promoting economic growth. However, a growing number of countries are adopting demand-side control measures that require proof of legality of forest products. Forest sector MSMEs will require significant support – and changes to the types of support they receive – to fulfil and even take advantage of these new and emerging market requirements and related opportunities.

This paper draws from 110 initiatives in 20 countries supported by the FAO-EU Forest Law Enforcement, Governance and Trade (FLEGT) Programme between 2016 and 2022 and seeks to provide examples of how to support forest sector MSMEs cost-effectively and at scale to integrate them into domestic and international legal timber value chains.

The initiatives discussed in this paper offer a wealth of experience and knowledge, which can be capitalized upon to boost forest-dependent livelihoods and promote both social equity and sustainability within timber supply chains. Implementing a portfolio of these strategies in a comprehensive support package generate "transformational changes" that help realize the potential of MSMEs to move past traditional business-as-usual modes of operation towards sustainable growth and more inclusive, resilient economies.

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